A NEW ERA FOR THE FUTURE

2016
ANNUAL REPORT
AND ACCOUNTS

efacec

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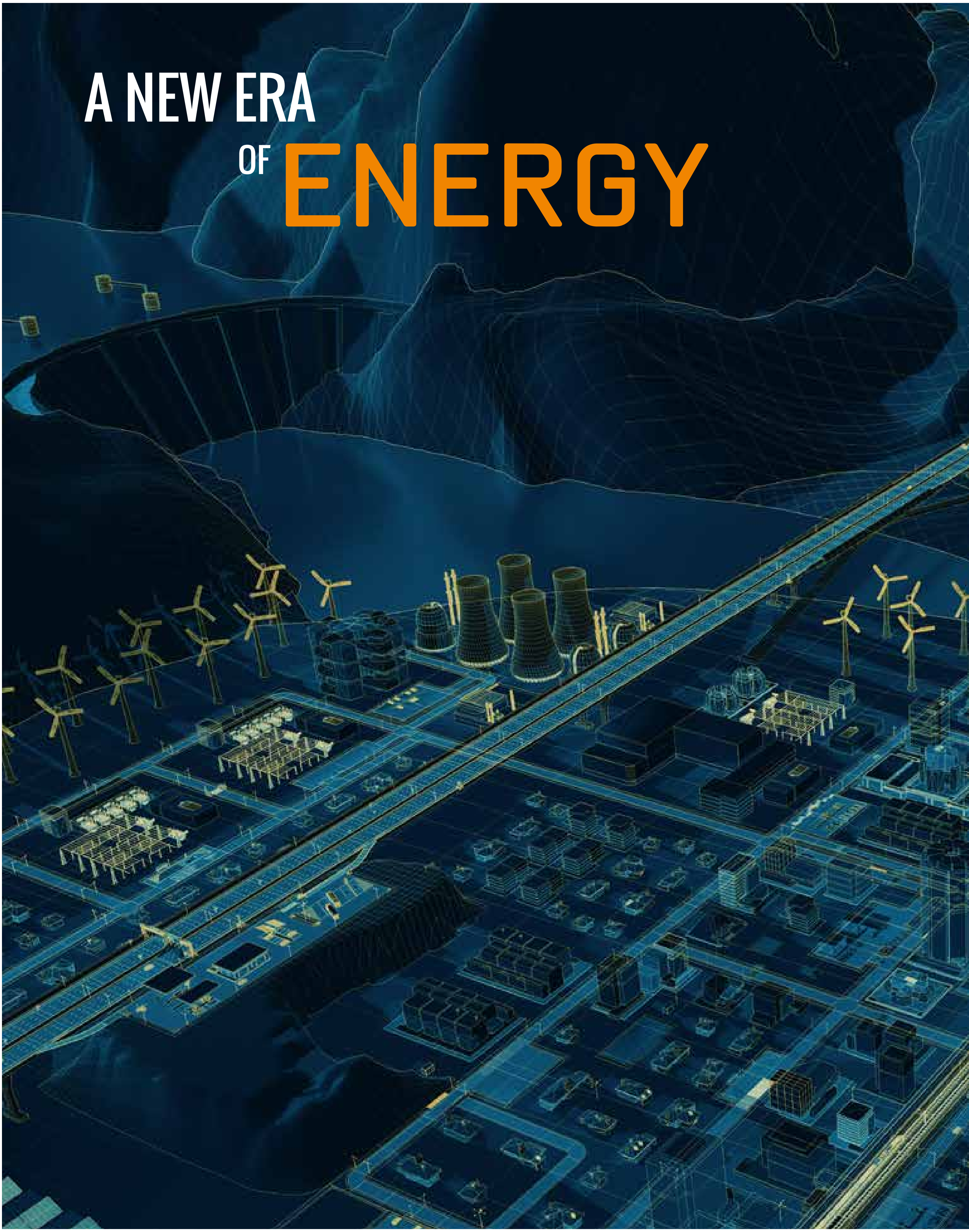
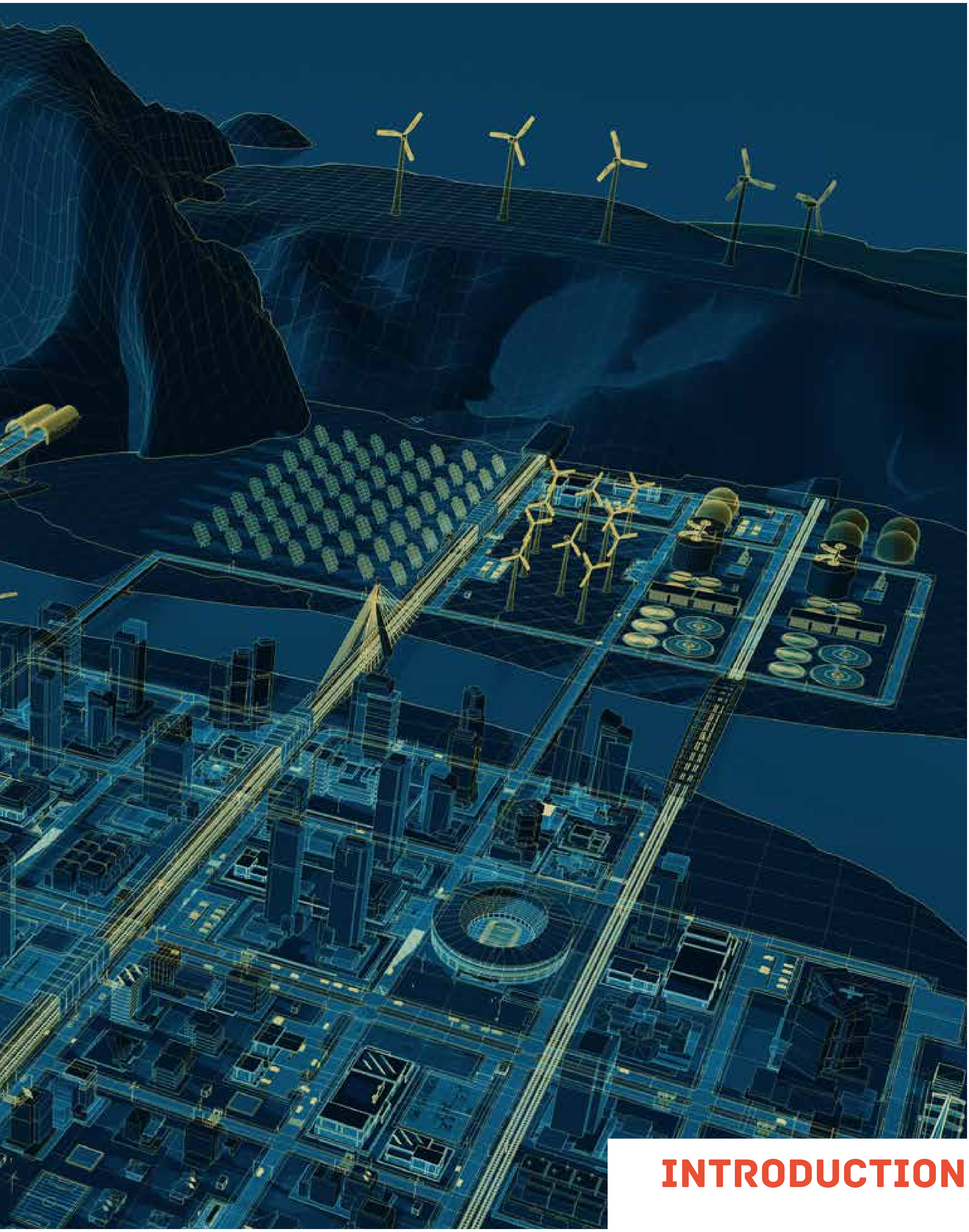


Smart City



INTRODUCTION

STRENGTHENING PLAN FOR THE FUTURE

MÁRIO LEITE DA SILVA

CHAIRMAN'S STATEMENT

The month of October 2015 marked the beginning of a new chapter in Efacec's history...

Efacec was going through a very difficult period at that time as a result of a cycle of growth that was too fast, too broad, and based on growing, unsustainable indebtedness.

Additionally, the Group struggled with excessive risk exposure, based on extensive focus on too many international markets with cultures, legal systems, partners and contractual approaches that were too different for the internal capacity in place to deal with such an extensive level of complexity at the same time and at such a large scale.

These factors, along with a highly adverse international financial context, led the Efacec Group to a very delicate economic and financial situation that was at the heart of the search for new strategic partners in its shareholder structure.

In 2016, the efforts launched by this new team began to bear fruit and reverse the negative financial and operational performance of recent years. These efforts were based around four main guidelines:

1. recovering Efacec as a **leading company and brand**;

2. **focusing** on a broad portfolio of products;

3. investing in **innovation** and disruptive technology;

4. boosting **efficiency and continuous improvement**, enhancing risk management and management control mechanisms.

Efacec, as a leading company and brand in the sector, has a history and credentials that have been proven over the decades. Our ambition must be for all current and potential customers – along with suppliers and competitors – to see Efacec as a credible, competitive player in all the areas of business in which we are involved. Throughout 2016, important steps were made to pre-empt our customers' needs, recover confidence, honour the commitments made and build close relationships with the different actors in our sectors of operations.

Efacec has a unique portfolio of products, only comparable to the big global players: energy; service; energy, environment and transport contracting; and electric mobility. The breadth of our portfolio makes us an indispensable company for customers, while also allowing us to diversify the activity risk. In 2016, we enhanced this portfolio, transmitting to our customers the same safety and credibility as big global players while at the same time providing the personalized service typical of local players.

2016 was also a year for boosting the resources available for the innovation and disruptive technology service. **Efacec is a technology company**, and being able to constantly question and improve our products and solutions must continue to be part of our DNA. Last year, we reviewed our organization to stimulate innovation and competitive intelligence and we launched numerous initiatives on innovation in products and processes.

Aware that Efacec's sustainability also requires us to be able to change, simplify and modernize our management practices and procedures, throughout 2016, we launched and

implemented projects in all Business Units and company areas with a view to greatly **enhancing efficiency, improving risk management and management control and the creation of a culture of continuous improvement.**

The results achieved in 2016 boost my confidence in Efacec and its employees: €432 million in revenue, 8.1% EBITDA margin and a net debt to EBITDA ratio of 2 (compared to €416 million in revenue, 7% EBITDA margin and a net debt to EBITDA ratio of 4 in 2015).

We work in attractive business sectors that are in the midst of a revolution, where today's premises will not be the same tomorrow. The reversal of previous negative performance that has been achieved in 2016 and the contracts and partnerships concluded throughout the year demonstrate that Efacec has the talent and management and technology skills, as well as the trust of its customers and business partners, to continue to establish itself as an outstanding player in the energy, environment and mobility sectors.

We therefore end 2016 with confidence in the future and motivation to keep following the path defined in our Strategic Plan that puts into practice the ambition we have for Efacec in 2020:

- **Creating sustainable value** for all our stakeholders (shareholders, customers, suppliers, partners and employees), reaching €700 million in revenue and EBITDA in line with our counterpart international companies. It is an ambitious goal, since we aim to grow in turnover and at the same time increase our margin above the rate of revenue growth. But we want to do so sustainably, with a view to maintaining a leading position in the market.

- Making the **Efacec brand synonymous with innovation and technology**, featuring among the **3 top-of-mind brands** for all our potential customers. We intend to actively participate in renewing the Portuguese industrial landscape by supporting entrepreneurship among young people, supporting incubation for start-ups and technology-based projects and helping take Portuguese technology beyond borders.

- Being one of the **top companies for recent graduates** in engineering, management and marketing thanks to the professional, personal and cultural development that our broad portfolio and diversity of locations allow, and thanks to the technology or management career opportunities that can be found within the Group and for the meritocracy culture that we defend.

- Being one of the companies at national and international level with **recognized excellence in the main areas of corporate action**: ethics, sustainability and talent development.

I feel honoured to lead this company and I know that we have hard but exciting work ahead of us to realize Efacec's potential. We are going to write the future. Together, we can do it.

EFACEC IN 2016

€406.2M
IN ORDERS

€431.5M
IN REVENUE

€34.9M
EBITDA

€8.0*M
EBT

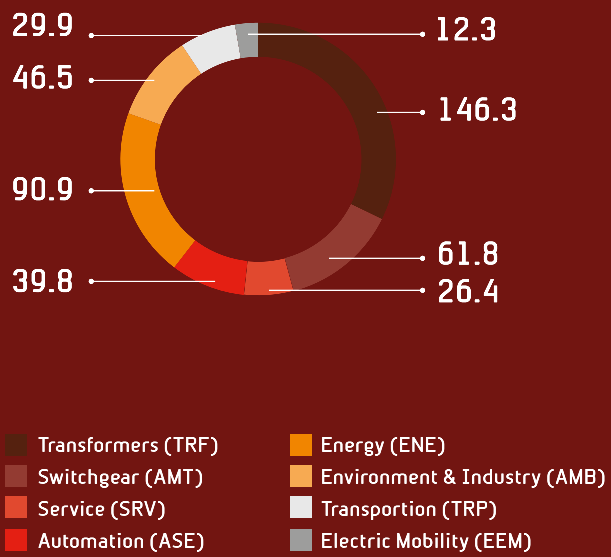
77%
OVERALL LEVEL
OF CUSTOMER SATISFACTION

2,330
EMPLOYEES


85%
IN PORTUGAL

15%
IN THE WORLD

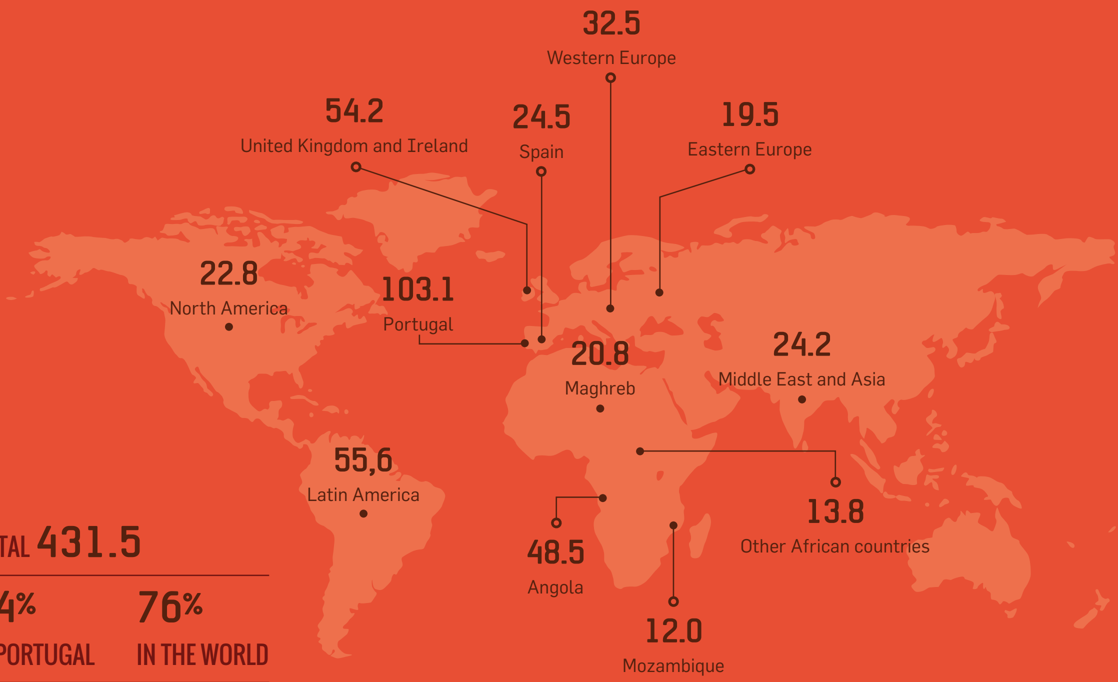
INCOME BY BUSINESS UNIT
(Millions of Euros, not consolidated)



* Including contract termination costs of €15.8M

ACTIVE MARKETS

Revenue by country (Millions of Euros)



TOTAL 431.5

24%	76%
IN PORTUGAL	IN THE WORLD

OUR VISION

Anticipating solutions for a sustainable world in the new energy Era.

OUR MISSION

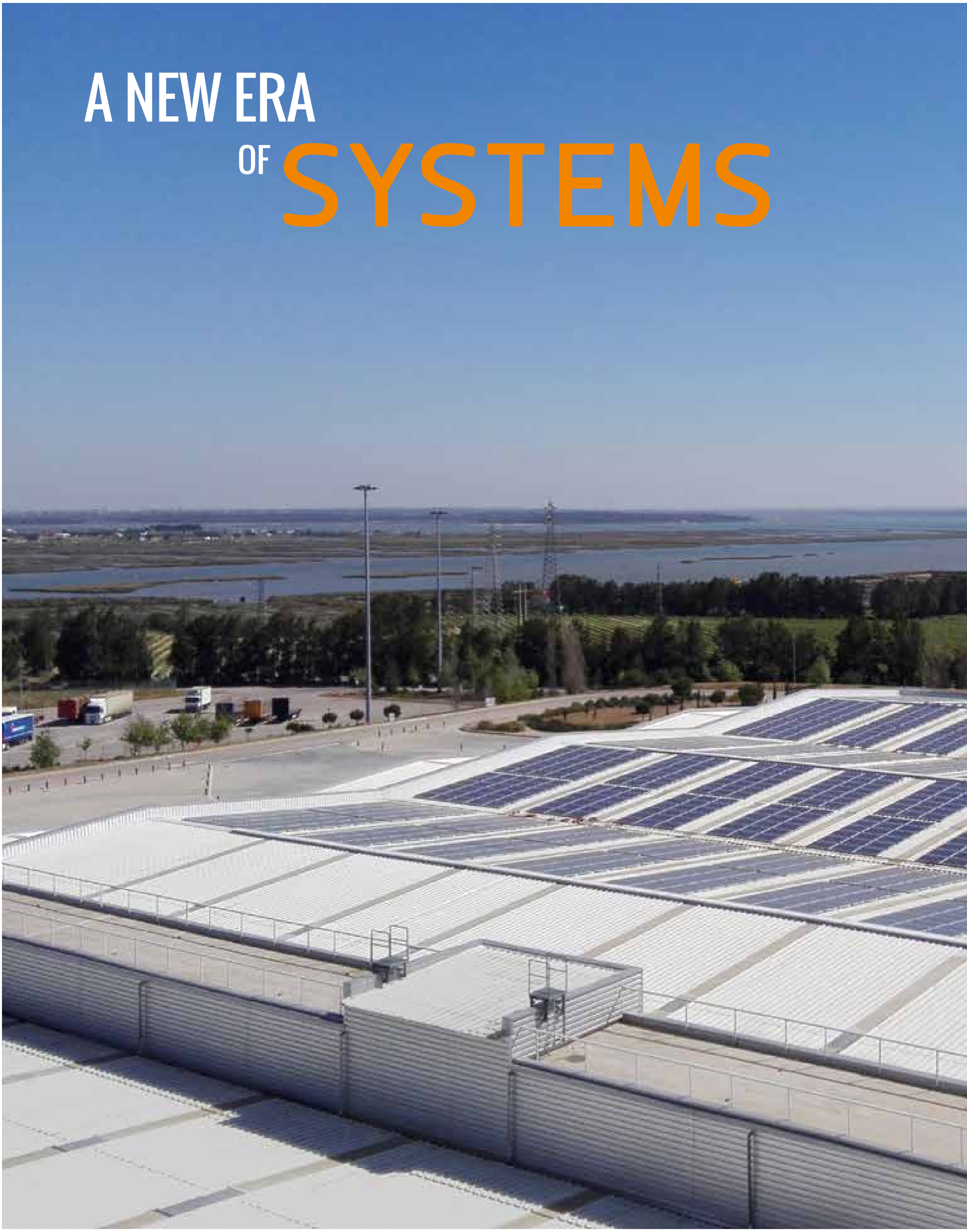
We create value with Energy, Environment and Transportation solutions that improve everyone's day-to-day lives by bringing together different skills and the more innovative technologies.

We develop people in an organization of learning and continuous improvement.

OUR VALUES

- We focus on our customers' success
- We promote efficiency to maximize competitiveness
- We learn and adapt to achieve excellence
- We build confidence by acting safely and with integrity
- We overcome challenges and deliver results

A NEW ERA OF SYSTEMS



The largest photovoltaic solar power plant installed in an industrial setting in Portugal – customer: The Navigator Company.

THE STRATEGY AND THE YEAR

STRENGTHENING PLAN FOR THE FUTURE

ÂNGELO RAMALHO

CEO'S STATEMENT

2016 was a very important year for Efacec. Firstly, the negative financial and Operational Performance of the last years was turned around. Secondly, a wide-reaching transformation project (called Efacec 2020) was launched, with the aim of ensuring the company's competitiveness and sustainability and strengthening it as a leading brand in Portugal and the world.

Despite the positive results, 2016 was clearly a year of challenges. The sectors in which Efacec operates have undergone significant changes that affect our business and the way we do and develop business. Some of our traditional locations, such as Europe, Africa and Brazil, are facing unstable macroeconomic conditions and a resulting slowdown in public and private infrastructure investment, particularly in energy and utilities. For others, such as the United Kingdom, geopolitical transformations lie ahead that will have consequences that we cannot yet foresee. China, on the other hand, has been asserting itself as the driving force of global trends in our areas of business. Our market, which is global, is increasingly demanding, with greater and stricter health and safety regulations, competitiveness focused fundamentally on price, and customers that are naturally more demanding with technical specifications, deadlines and contract conditions.

As well as these challenges, we are at a turning point for new paradigms; a new era of energy and a new era of mobility, in which Efacec plays an active and leading role at its level and sometimes contending with major players. The heralded Energy and Industry Revolution 4.0 make us confident about the future, thanks to the opportunities it will create, which will have to involve changing the current paradigms of business models and the way our products and infrastructures are used.

These changes in paradigm are opportunities for Efacec but also demand attention and foresight in three main areas:

1) Innovation

A consequential innovation process can only exist with suitable balance between incremental evolution and disruption. In any case, it demands from us inspiration, the creation of new ideas and, naturally, the ability to implement them; this too is part of creativity. The innovation process is not compatible with organizations that are closed in on themselves, and it is essential to stimulate the network with the different ecosystems that surround us: bodies in the science and technology system, partner companies with complementing interests, competing companies that wish to share development costs or integrate our products into their solutions, and start-ups where disruptive business models, products and technology are cultivated.

2) Technology

Technology is in products, services and processes and throughout the value chain in an increasing convergence of IT and OT. Digital technology, in its many different facets, is a pillar on the journey to value creation. Efacec now incorporates digital technology in many of its products. However, the trend goes much further. Digital technology is present all around us, powered by the expansion of sensors in everything we handle through increasingly humanized interfaces. We live in the era of big data, the cloud, the internet of things and artificial intelligence. It is essential for us to take advantage of digital technology to increase the efficiency of our processes, make our products and services stand out, and retain our customers. This means we

will need to develop platforms that we do not yet have. This awareness is a positive sign that we are at the gateway to digital transformation at Efacec.

***3)* Time-to-market**

Being a leader in technology means focusing on time to market. The speed at which the situation is changing means we must be even quicker in our own process of change. Only by being quicker than our competitive surroundings will we be able to enhance our competitiveness. We can only do this if we have a strategic goal, if we know where we want to go, if we are organized and arrange our expertise properly and are able to boost internal synergies and external partnerships.

As the year 2016 comes to a close, I must reiterate that Efacec is a company at the cutting edge of technology, which competes with the biggest and most recognized world players in the sectors in which it operates. The achievements made this year continue to show our high technical quality, technological advances and competitiveness of our energy, environment and mobility solutions, as well us the trust placed in Efacec by our customers. Some examples of our most emblematic projects can be found below.

- Contract with Porsche to supply turnkey electric vehicle charging facilities for Porsche's internal use at different locations in Europe at high voltages and 320KW in power per outlet (first equipment in the world to offer that level of output).
- Efacec's leadership of the consortium that won the international competition for Tunisia's 11th Electricity Transmission Network Plan, a project financed by the Islamic Development Bank, in which Efacec was responsible for supplying the electrical substations.
- In Chile, completion of the global turnkey EPC project for a 24.8 MWp photovoltaic solar power plant located in the Atacama Desert.
- Awarding of the design and execution of a household waste sorting station by Reno-Nord, a Danish municipal company, in a pioneering project in Denmark.

Efacec is, today, a company that has an extensive exporting component. Our export market represented approximately 76% of our turnover in 2016. This increasing exposure to the international context, together with our wider business portfolio, enables us to mitigate the overall risk of the operations but also poses us with larger and larger challenges.

Efacec's performance in 2016 demonstrates to me that we have the talent needed to create value for our customers, shareholders and employees. In fact, the results achieved would not have been possible without our employees' commitment, dedication and hard work. In this brief message, I must thank them for their efforts in this transformation and the past year's many achievements. I also leave a message of thanks to our shareholders for the confidence they have placed in Efacec, without which it would not have been possible to achieve the turn-around in performance seen in 2016. And to all our new and regular customers thank you for choosing us.

SUMMARY OF THE EFACEC 2020 PROJECT

JAN

Assessment of Efacec's current situation

Benchmarking of market(s)/sector(s)

FEB

Development of the Group's strategic vision and positioning

Development of strategic guidelines by business unit

APR

Review of the Organization

Quantification of the 2016-2020 Business Plan

Development of the Implementation Plan

MAY

Presentation of the Efacec 2020 Strategic Plan

2020

All together we can do it

17
weeks running time

5
workshops

>40
individual interviews

>70
meetings with Business Units

>20
interactions with the Executive Committee and Shareholders

>1,100
responses to the Organizational Health survey

>150
participants in thematic meetings with the CEO and CFO

~100
suggestions for operational improvement

EFACEC 2020 TRANSFORMATION PROJECT

At the start of 2016, Efacec launched a strategic reflection (called Efacec 2020) with the aim of rethinking the different areas of the Group: products and services, skills, customers, organization, governance model, etc. More than an exercise in strategic planning, Efacec 2020 is a transformation project, designed by Efacec for Efacec, based on a collaborative and inclusive process that enabled the different business and corporate teams to take part, along with other stakeholders (shareholders, partners, customers and suppliers).

Four major reasons were behind the development of a strategic vision for the 2016-2020 period, a future guiding instrument for the Group's business plans, annual budgets and different Business Units:

1. The "negative" financial and Operational Performance of recent years

Despite the positive operating profitability of the businesses, there was a considerable gap between the EBITDA and the bottom line (11pp at Group level), which produced negative results. The new shareholders made it possible to restore Efacec's balance sheet, giving it a sustainable debt profile and improving cash holdings. However, there was still a long way to go to remove the obstacles to the company's liquidity, specifically by optimizing the cost structure and the necessary rebalancing between payments and receipts.

2. Redefining the outline of Efacec's businesses

The business portfolio of Efacec Power Solutions (EPS) is very different from the portfolio of the former Efacec. Some businesses were divested and others discontinued. Rethinking the position, vision and medium-term future Strategy of each Business Unit and the Group as a whole was therefore essential. What should the company be? What direction should it go in? What are Efacec's ambitions for 2020?

3. The challenge of profitability in the different product and service lines

Despite the technical quality of Efacec's products and services, the company had been on the road to losing its position and market in recent years, with profitability in some Business Units almost 20pp below comparable competitors. Furthermore, the higher turnover was concentrated in more traditional businesses with smaller margins, and there was also a misfit between geographic presence and turnover. This profitability challenge required a "new standard" of efficiency to be achieved throughout the entire value chain, from Business Units to cross-cutting and support functions.

4. The need to enhance the Efacec culture

The analysis of Efacec's health uncovered a compelling need to transform and change its culture. The organization into "silos" needed to be removed to provide an integrated view of the business and customers. Good technical and technological skills needed to be enhanced. Better management practices had to be expanded throughout the company. Empowerment and accountability mechanisms had to operate at all levels of the organization, based on a meritocracy system.

In view of this context, **Efacec 2020** was structured around **5 strategic pillars**, fundamentally based on achieving the Group's internal goals.

STRATEGIC PILLAR		STRATEGIC OBJECTIVE
Technological Innovation	Innovation in the product and service portfolio to increase competitiveness and profitability	· Investment in technology development, namely by enhancing relationships with science, technology, certification and business institutions. · Focus on increasing competitiveness in functions, processes and performance · Promotion of the individual profitability of each business but with a focus on the Group's overall profitability and sustainability
Operational excellence	Matching internal attitudes and practices with continuous improvement targets	· Review of the organization to maximize synergies and knowledge transfer within the Group · Promotion of a culture of operational excellence throughout the businesses' value chains (product/solution development, manufacturing and assembly/design, logistics, etc.) · Optimization of instrumental and support processes
Proactive comercial approach	More organized, pragmatic and aggressive commercial stance with an export approach	· Export approach led by the Business Units in the different locations · Stimulation of commercial synergies through market intelligence and business development functions to provide coordination, systematization and best practices · Investment in strategic commercial locations, complemented by business opportunities
Focus on the client	Focus on customers, respecting commitments undertaken and assuming a position as a true business partner	· Improvement in available products/services and customer care · Focus on developing new and better solutions in partnership with customers · Emphasis on exceeding customer expectations, anticipating their needs and market requirements
Talent Development	Investment in employees to guarantee the best skills, commitment and added value for the company	· Enhancement employees' soft skills (in line with the company's culture, mission, vision and values), functional skills (expertise) and management skills (ability to act) · Promotion of a meritocracy and growth opportunities based on a strategic human capital management model that is common to all the different Business Units and locations · Goal orientation, following a model of empowerment with accountability

Presentation of the Efacec 2020 Strategic Plan – Alfândega Congress Centre in Porto, Portugal.

AMBITIONS OF EFACEC 2020

The ambitions of Efacec 2020 involve attaining financial indicators (connected to sustainable growth across the different Business Units) but also implementing a specific value proposition for each one of the Group's stakeholders:

CUSTOMERS

Being one of the 3 top of mind companies/brands for all potential customers

EMPLOYEES

Giving employees a challenging work environment with merit-based career progression

Being a company where the best recent graduates (in Engineering, Marketing, Economics and Management) aspire to work

Higher revenue
Higher EBITDA

SUPPLIERS AND PARTNERS

Being one of the leading partners for all companies working in Efacec's business areas

SHAREHOLDERS

Strengthening the Group's leading position in the national and international market

Being a company that is recognized in Portugal and internationally as having excellent responsible business behaviour

COMMUNITY

Making an active contribution to renewing the Portuguese industrial landscape

Supporting the dissemination and maximization of Portuguese technology-based science and business institutions

The overall ambitions presented are broken down by Business Unit and aligned with the relevant operations priorities in each strategic pillar, defined according to the outlook for the sector's development and the maturity and specific features of each business (see detail in the Business Performance chapter).

EFACEC 2020 IMPLEMENTATION PLAN

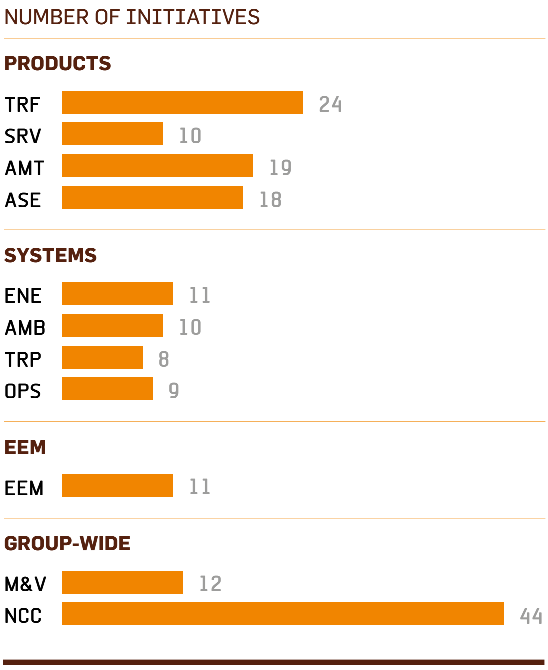
The Efacec 2020 ambitions are reflected in a specific implementation plan composed of two types of initiatives:

- **Business Unit initiatives**: connected to operations and directed towards increasing revenue and/or reducing direct costs, especially those related to research & development (R&D), commercial activity and optimization of the value chain;

- **Group-wide initiatives:** to be implemented across Efacec, related to changes in the organizational model, optimization and harmonization of critical processes, cash management optimization, etc.

By the end of 2016, 176 initiatives with a potential positive impact on EBITDA had been identified, with more than 40% of the effort concentrated on group-wide initiatives.

BREAKDOWN OF THE 176 INITIATIVES BY NATURE AND BUSINESS UNIT

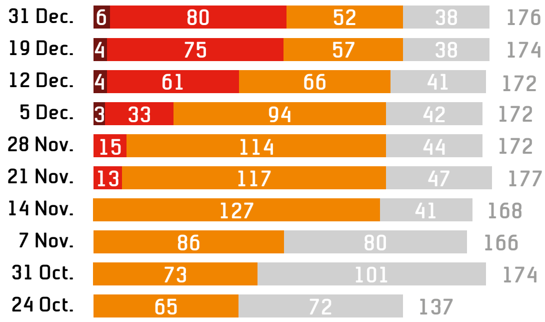


OPS – Operations
M&V – Marketing & Sales
NCC – Corporate Areas

Of the 176 initiatives identified, 6 were already being implemented and 80 had a validated business plan at the end of the year.

These initiatives have been tracked, monitored and challenged by a transformation office, following a method that tracks the progress of execution and results.

EVOLUTION OF THE IMPLEMENTATION PLAN (FROM IDEAS TO IMPLEMENTED INITIATIVES)



TRANSFORMATION COMMITTEE (CEO, CFO, CTRO*, STRATEGIC PLANNING)

6 WORKSTREAMS	Marketing and Sales		Products (TRF/SRV)		Products (AMT/ASE)		Systems				Electric Mobility	Group-wide Areas					
SPONSORS	Ângelo Ramalho		António Gonzalez		Luís Delgado		Fernando Lourenço				Luís Delgado	Francisco Nunes					
17 SUB-WORKSTREAMS	Business Development	Marketing and Commercial Activity	Transformers	Service	Switchgear	Automation	Energy	Environment & Industry	Transportation	Operations	Electric Mobility	Procurement	HR	Organization	Management Control	Continuous Improvement	Administration and Finance
17 LEADERS	Fernando Vaz	Michael Silva	Fernando Vaz	Tiago Gonçalves	Armando Fernandes	Paulo Vaz	Carlos Freitas	José Sousa	Vitorino Rocha	Joaquim Simões	Pedro Silva	Pedro Felício	António Pinheiro	Vanessa Loureiro	Manuel Ferreira	Vanessa Loureiro	Ana Figueiredo
NO. OF INITIATIVES	3	9	24	10	19	18	11	10	8	9	11	29	0	2	0	9	4

TRANSFORMATION OFFICE (TO)

CTrO **João Paulo Pinto**
FACILITATORS **to oversee and support work at all levels of the initiatives**
CONTROLLERS **to support quantification for projects and monitor value delivery**
COMMUNICATION **to define and set out the change management programme**
TECHNICAL SUPPORT **to maintain the monitoring tool**

* CTrO: Chief Transformation Officer

Thematic meetings with the CEO and CFO.

EFACEC 2020 IMPLEMENTATION PLAN EXAMPLES OF GROUP-WIDE INITIATIVES

CROSS-SELLING PRODUCTS

OBJECTIVE
To increase Product sales by enhancing synergies between Business Units in opportunities to recover customers or new locations

NEW TRANSPORT MODEL

OBJECTIVE
To reduce transport costs by centralizing the responsibilities for compiling and categorizing needs and creating a new procurement, negotiation and relationship model

NEGOTIATION OF SHEET ELECTRICAL STEEL AND MAGNETIC CIRCUIT

OBJECTIVE
To reduce complete magnetic circuit and electrical steel costs

GROUP-WIDE SYSTEMS OPERATIONS DEPARTMENT

OBJECTIVE
To improve resource management by minimizing inactivity and maximizing the group-wide running of project management processes and methods

A GLANCE AT THE TRANSFORMATION PROJECT

JOÃO PAULO PINTO

EXECUTIVE DIRECTOR

Many of the transformation processes carried out by companies do not achieve the success expected, due to difficulties in the monitoring and implementation process. What has Efacec done to mitigate that risk?

The initiatives set out in Efacec 2020 are being tracked, monitored and challenged by a specific department (the Transformation Office), which has its own governance model and follows a specific method.

Efacec 2020 is founded on 6 workstreams, split into 17 sub-workstreams and 176 initiatives in order to clearly define responsibilities. Each workstream is led by an Executive Director, and the sub-workstreams are coordinated by a high-level Manager. Those in charge of the initiatives lead the execution and guarantee delivery of results, working with multifunctional teams who ensure that all opportunities are fully taken. The organization defined to execute and track implementation of the transformation is based on functions rather than hierarchy to ensure cooperation between the Business Units and company departments and guarantee success.

How does the Transformation Office, the specific department for monitoring Efacec 2020, work? In what points of the process is it involved and what role does it play in the day-to-day running of Efacec?

The Transformation Office has been operational since September 2016 and is led by an Executive Director. It is responsible for supporting and challenging the implementation of the 2016-2020 business plan and Strategy and the related Transformation Plan, ensuring that the initiatives identified are carried out carefully, continuously identifying further opportunities in all the company's areas and quickly resolving any obstacles. This will allow Efacec to achieve and outdo the ambitions established. Additionally, it is also the responsibility of the Transformation Office to guarantee that the results achieved are sustainable and to encourage continuous change in the company's culture, pushing forward the organization's work dynamics and combining recommendations for short-term impact with the medium-term vision.

The Transformation Office's work is based around 3 features:

- The existence of a separate governance model structured around the existing workstreams;
- The creation of a specific structure for periodical meetings;
- The implementation of a progress monitoring method.

In practice, what does the existing implementation method consist of and how is it being put into place?

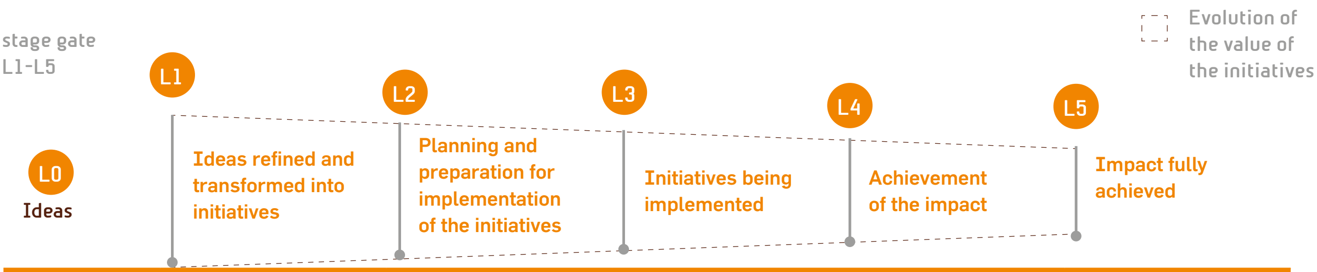
The progress of existing initiatives is monitored using a system of stage gates that is quite precise and strict. This tracking model allows for complete, regular overviews of all the indicators necessary to monitor success in terms of deadlines and in terms of results. Using 5 stage gates with milestones, deliverables and related approvers, it is possible to find out the state of the process in real time and its effects are therefore enhanced. Furthermore, the process is organized around a separate, web-based tool where all the initiatives and their stages are recorded, along with the level of achievement.

Regular tracking of the programme is based on a series of weekly meetings that have fixed structures and agendas and are attended by the company's high-level executives.

The main meetings are "war room" meetings and are designed to track the implementation/execution of the initiative and monitor the progress/results achieved (based on established indicators). The people involved in these meetings have well-defined roles.

There is also a Transformation Committee which is responsible for reporting on the Efacec 2020 Transformation Plan to the Executive Committee and Board of Directors.

IMPLEMENTATION METHOD



Milestone	CONFIRMATION	BUSINESS CASE	ACTION PLAN	IMPLEMENTED	CAPTURED
Deliverables	· Person responsible for the idea assigned · Specific idea and high-level estimate	· Assigned team · Business case of the initiative, assessing its feasibility, risk and impact	· Detailed implementation plan ("bankable plan") with weekly milestones	· All of the initiative's key activities carried out · Impact to flow into P&L and cash flow	· Impact of the initiatives sustainably reflected in P&L and balance sheet (the run rate achieved)
Approvers	Sponsor	Sponsor CFO	Sponsor CTrO	Sponsor CFO CTrO	CFO
Typical leakage	150%	130%	130%	120%	100%

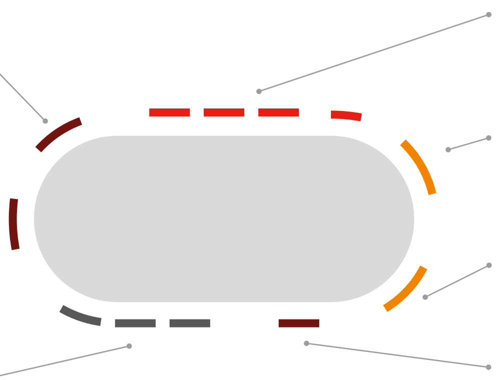
Identifying Value | Capturing Value

HOW A WAR-ROOM MEETING WORKS

FACILITATOR
Directly supports workstreams in executing the initiatives

CTrO
Leads the meeting and ensures the plan is followed

MANAGERS
Managers of other areas/units involved for specific matters (by invitation)



OWNERS OF THE INITIATIVES
Receive support for their initiatives and help other initiative owners

SPONSOR
Together with the CTrO, supports/challenges the initiative owners

INITIATIVE LEADERS /SUPPORT AREAS
Summarize the workstream's progress

CONTROLLER
Assesses the planned impact of the initiatives and quantifies how it is manifested in P&L

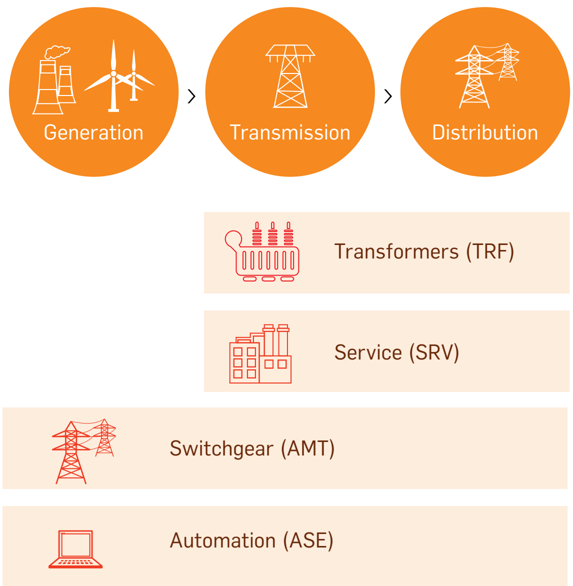
BUSINESS PERFORMANCE

Efacec is organized into eight Business Units which are grouped into energy products, systems and electric mobility.

ENERGY PRODUCTS

Efacec designs, develops and manufactures products for the different stages of the energy sector value chain. Alongside this, it provides maintenance, refurbishment and revamping for its own and third-party equipment.

EFACEC'S WORK THROUGHOUT THE ENERGY VALUE CHAIN



TRANSFORMERS (TRF)

This Business Unit develops and manufactures products and solutions for generating, transmitting and distributing electricity.

It is world-renowned as a manufacturer of benchmark-setting, competitive and high-quality transformers, emphasizing evolution in technology and continuous development.

PORTFOLIO:

- Power transformers: shell and core;
- Mobile substations;
- Distribution transformers (up to 4,000MVA).

Mobile substations transported by air using Antonov aircraft – customer: EDESUR.

SWITCHGEAR (AMT)

The switchgear Business Unit develops solutions for high and medium-voltage electricity generation, transmission and distribution. It works with primary and secondary distribution and provides transformer substations and switchgear equipment.

It provides a broad, cross-cutting range of products and services that include manufacturing, installation and post-sales service.

PORTFOLIO:
- Primary distribution: broad portfolio of medium-voltage solutions;
- Secondary distribution: portfolio of solutions including modular switchgear, modular compact cells and overhead distribution system vacuum reclosers;
- Transformer substations: turnkey solutions for electricity distribution with a high degree of customization;
- Switchgear: range of products comprising, among others, disconnectors, circuit breakers and switches.

SERVICE (SRV)

The service Business Unit is dedicated to providing inspection, testing, diagnosis, maintenance, repair and commissioning services for the main equipment found in the energy sector – transformers, motors, alternators, generators, circuit breakers, disconnectors, switches, switchboards, etc. – at both customers' premises and at the workshop. The unit also provides global maintenance contracts and develops revamping solutions for equipment and facilities to fit needs. It also has specialized services for evaluating asset management and the condition of assets.

PORTFOLIO:
- Power transformers;
- Rotating machinery and distribution transformers;
- Revamping of medium-voltage/low-voltage (MV/LV) facilities.

AUTOMATION (ASE)

The automation Business Unit provides design, development and supply services for energy system supervision, control and automation products and solutions. It also operates in the power supply, power electronics inverters, storage and space segments. As a result of the reorganization of Efacec's businesses, the development of power electronics solutions was included in ASE's portfolio, enhancing energy conversion solutions and support for operation of the power grid.

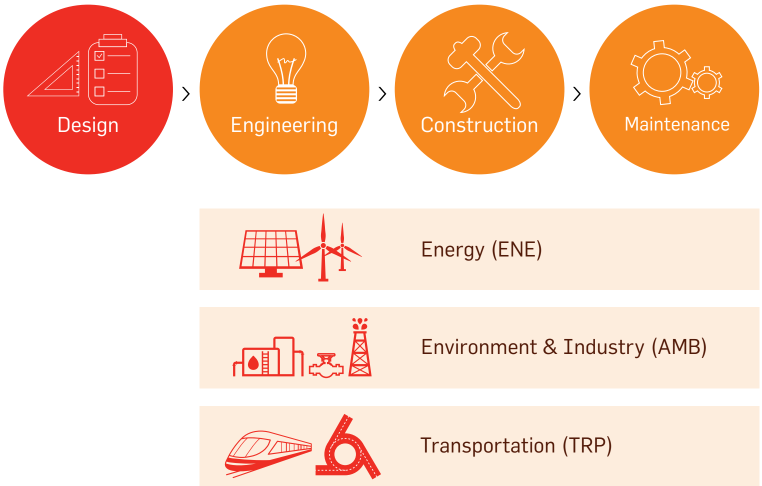
PORTFOLIO:
- Power grid management;
- Automation systems;
- Smart grids;
- Power supply systems;
- Solar inverters;
- Aerospace.

WWTP, Portugal – customer: Águas do Noroeste.

SYSTEMS

Efacec develops solutions and executes turnkey projects following an EPC (engineering, procurement and construction) approach for the energy, environment and transport sectors, and also carries out maintenance and infrastructure operations.

EFACEC'S WORK THROUGHOUT THE EPC VALUE CHAIN



ENERGY (ENE)

The energy Business Unit's mission is to execute electrical and mechanical infrastructure construction projects for customers in the industry and energy transmission and distribution sectors. Its operations are global and its presence is international, and it maintains a close relationship with Efacec's other Business Units, particularly the product Business Unit.

PORTFOLIO:

- Substations: Very high voltage (VHV), high voltage (HV) and medium voltage (MV) up to 500kV;
- Hydroelectric power plants: plants for producing and storing energy from water resources;
- Renewables: photovoltaic electricity generation solutions (solar power plants and self-consumption) and hybrid generation (solar + thermal + storage) for connection to the grid.

ENVIRONMENT & INDUSTRY (AMB)

This is a Business Unit that offers integrated solutions from design and planning to implementation, introduction to service and operation of systems for sewage and solid waste (environment) and thermal plants and air (industry). In the environment field, Efacec also operates in the service segment, which involves operation and maintenance.

PORTFOLIO:

Water

- Water collection, pumping and supply plants;
- Water treatment plants;
- Domestic and industrial wastewater treatment plants;
- Pumping stations;
- Remote management of water and sewage networks and infrastructures.

Solid Waste
- Simple, automated and biological mechanical treatment by anaerobic digestion and aerobic composting;
- Recycling of organic matter through anaerobic digestion and aerobic composting;
- Production of refuse-derived fuels (RDFs);
- Use of energy from biogas produced by anaerobic digestion and landfill;
- Sealing of landfill and gas fields;
- Systems for remote infrastructure management and supervision.

Thermal Power Plants
- Conventional plants (gas, diesel, HFO, etc.);
- Combined-cycle and cogeneration;
- Biomass power plants;
- Electric and control systems.

Air
- Industrial ventilation and dedusting;
- Mechanical and pneumatic conveying of materials;
- Silage and unloading systems.

TRANSPORTATION (TRP)

A Business Unit that has an integrated selection of services dedicated to providing energy and signage solutions for the railway, heavy and light rail and road sector, including products and technology that it has developed itself. This makes the unit stand out in its international operations even in the most demanding markets.

PORTFOLIO:
- Energy for transport;
- Signage and telematics;
- Infrastructures and telecommunications.

MOBILITY

ELECTRIC MOBILITY (EEM)

Business Unit dedicated to developing innovative energy solutions, with its main focus on charging solutions for electric vehicles and integrating them into grid management systems. The Business Unit works following a start-up approach, and it is one of the leaders for the electric mobility sector in the world.

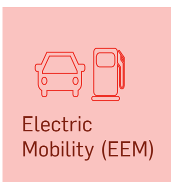
PORTFOLIO:
- Slow and fast charging stations.

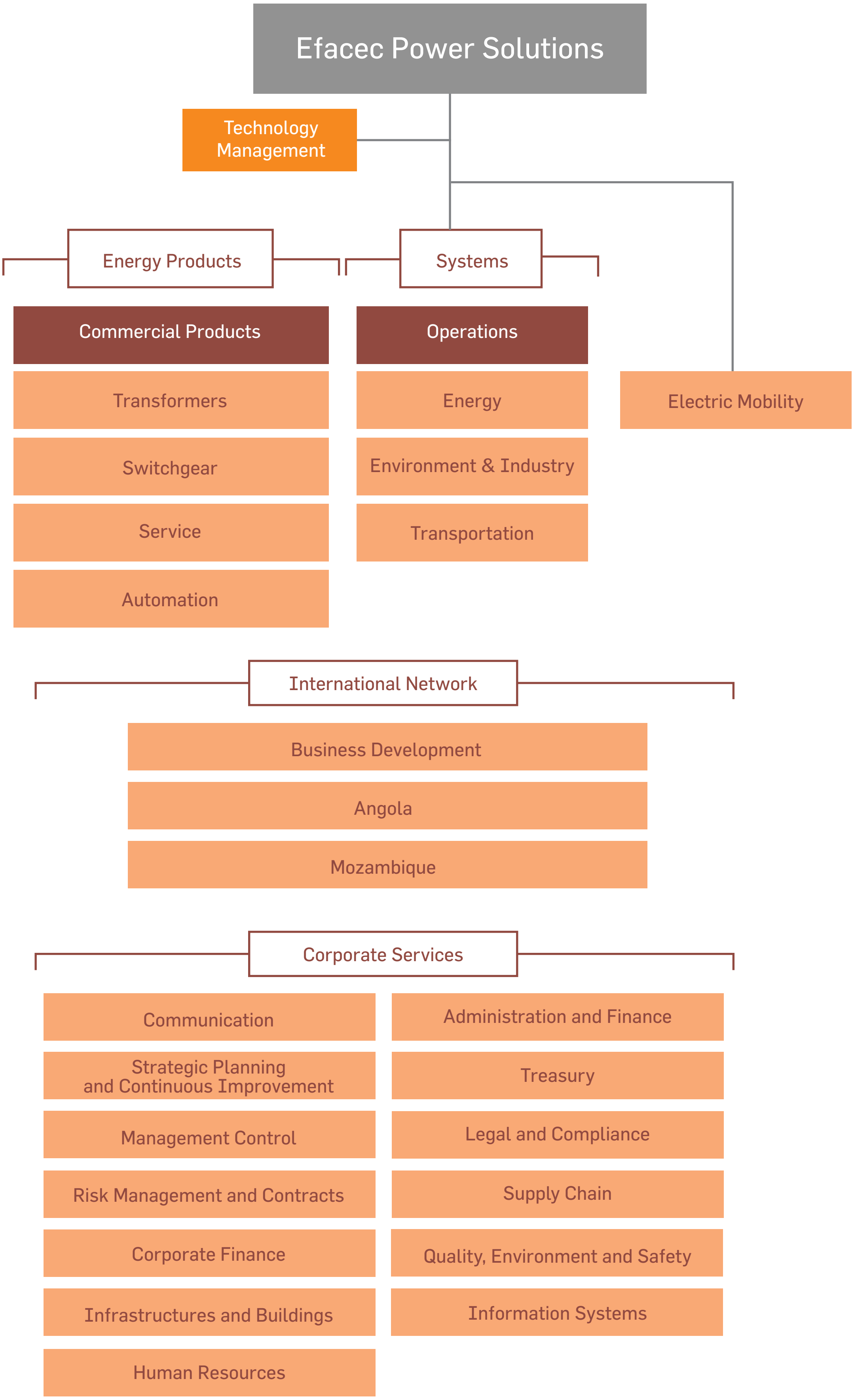
This organization of Efacec's businesses is the result of the need identified as part of the Efacec 2020 Transformation Programme to enhance the synergies between product and system Business Units as well as placing greater emphasis on electric mobility.

Efacec's new organizational structure aims to stimulate synergies by creating functions common to the different Business Units – commercial activity for products and operations for systems. In addition, the group-wide functions (corporate areas) were reviewed, encouraging a focus on internal customers.

There were also changes within the international network, with the formation of a business development structure common to the entire Group. The market units were extinguished in the second half of 2016 and were integrated into Efacec's operations in the relevant Business Unit locations. Only Angola and Mozambique remained autonomous structures due to their multi-business nature.


HV350 Porsche charger.




Efacec Power Solutions
Technology Management
Energy Products
Commercial Products
Transformers
Switchgear
Service
Automation
Systems
Operations
Energy
Environment & Industry
Transportation
Electric Mobility
International Network
Business Development
Angola
Mozambique
Corporate Services
Communication
Strategic Planning and Continuous Improvement
Management Control
Risk Management and Contracts
Corporate Finance
Infrastructures and Buildings
Human Resources
Administration and Finance
Treasury
Legal and Compliance
Supply Chain
Quality, Environment and Safety
Information Systems

TRANSFORMERS (TRF)

673
Number of Employees

€146.3M
Turnover

€7.2M
EBITDA

VISION

To be a preferred partner and anticipate innovative, personalized solutions for energy infrastructures in a new era of sustainable energy

MISSION

To design and develop innovative, flexible equipment and solutions, helping increase the efficiency of electricity production, transport and distribution systems, using the most modern technologies, and incorporating different skills within an organization that values people and encourages continuous improvement

STRATEGY

- Use of cutting-edge technology as a determining factor in guaranteeing the competitiveness and quality of products, compliance with environmental concerns and enhanced image as a prestigious manufacturer
- Focus on customers and selected markets
- Promotion of best practices and better efficiency in processes, valuing people through continuous training and skill development

WHICH GEOGRAPHIES?

STRATEGIC PILLAR	
Technological Innovation	· Focusing on products that have a competitive, sustainable advantage, particularly mobile substations and power transformers · Maintaining the range of distribution transformers on offer, exploring opportunities in current framework agreements and private contracts · Developing solutions aligned with market trends
Operational excellence	· Eliminating inefficiencies found in the production process (e.g. one piece flow and pull approaches, customer-supplier relationship, etc. · Furthering cost reduction measures, such as partnerships with suppliers, modularization and/or product redesigns
Proactive comercial approach	· Prioritizing a fly-in fly-out model, using Efacec's local structures when available · Continuing a differentiation strategy by line of business/product · Enhancing presence in priority markets
Focus on the client	· Improving throughput time · Adapting products to customer requirements · Improving deadline compliance (on-time delivery)
Talent Development	· Building a dual career model to boost vocational development for technical functions alongside management functions · Reviewing the performance assessment model and including the specific characteristics of career families vs. career groups throughout the company · Reviewing the compensation and benefits model, promoting an approach based on strategic and tactical objectives (e.g. proactive commercial approach) · Defining a talent management model that makes it possible to identify employees who have high potential and guide them towards faster career development paths · Drawing up a behavioural, functional and management training plan capable of preparing employees for Efacec 2020

The defined strategy is implemented via **24 initiatives** which are foreseen to start having a positive impact on EBITDA in mid-2017.

GLOBAL MARKET VISION

The trend to defer new investments and extend the useful life of critical grid assets, such as power transformers, continues to define some markets, particularly the European one. However, the European strategy of boosting cross-border interconnections, such as in the Nordic and Baltic countries, with the aim of creating interconnected energy for Europe, has somewhat balanced out that trend.

Europe and the USA continued to be significant regions in terms of transformers. Locations with economies that heavily depend on oil, as is the case for some African countries including Angola and Mozambique, saw some of their investments postponed or cancelled.

OPERATIONAL PERFORMANCE

UNITED KINGDOM

In 2016, the United Kingdom market remained the main market for TRF. The British utilities – UK Power Networks, SSE – Scottish and Southern Energy, Electricity North West, Scottish Power and Northern Powergrid – were Efacec's main customers, with eight multi-year contracts for distribution transformers and two multi-year contracts for power transformers.
In 2016, the first 400kV core transformer was also delivered to SSE and an order was received for two new 1200MVA transformers and two 480MVA transformers for Scotland's 400kV transmission grid.

PORTUGAL

In Portugal, projects included putting into service three three-phase transformers and a bank of single-phase transformers as well as an order for three core power transformers for REN – Redes Energéticas Nacionais. Two 160MVA 412kV transformers were manufactured and delivered for EDP's Foz Tua power plant. Several distribution transformers were also sold this year to a range of industrial, distribution and export customers.

SPAIN

Highlights from the Spanish market include supplying 600MVA 400kV power transformers and an order for a similar bank of shell transformers for the REE – Red Eléctrica de España transmission grid. The utilities Gas Natural Fenosa and Iberdrola remain among the largest customers, and they continued to trust Efacec to supply transformers for their distribution grids and for their electricity production facilities.

FRANCE

The French market has been increasingly important for TRF in recent years. Under contracts with EDF – Electricité de France, the first 100MVA transformer was installed for the city of Paris. Six power transformers were also supplied for the country's transmission grid, RTE – Réseau de Transport d'Électricité, and an order was received for the first transformer in the Haute Durance project. Also in 2016, Efacec supplied its first transformer for a hydroelectric power plant in France, belonging to the Compagnie National du Rhône.

ANGOLA

The first three 371MVA 400kV units were manufactured and delivered to the substation for the Laúca Hydroelectric Power Plant, a project included in a contract with the Austrian company Andritz Hydro to supply 8 generator step-up transformers installed in a power plant with a power output of 2074MW.

ARGENTINA AND URUGUAY

Comisión Técnica Mixta de Salto Grande, a bi-national organization run by Argentina and Uruguay, which has hydroelectric power generation and an installed capacity of 1890MW, was supplied with three 100MVA 512kV single-phase shell transformers, generator step-up transformers at the highest voltage range produced by Efacec.

COLOMBIA

Within the ENEL group, Efacec supplied Codensa, a Colombian utility, with a 40MVA 115/34.5-13.2-11.4kV mobile substation, together with a 115kV GIS module and four medium-voltage cell modules.

Supplying Duke energy with two shell type GSU transformers to be installed in the McGuire nuclear power station.

USA

The USA market continued to establish itself as the main market for mobile substations, with orders for eight new substations for Alabama Power, Ameren, Duke Energy and Oncor. A supply project was also completed for seven single-phase 250MVA 500kV transformers ordered by Entergy, a utility that operates the electricity grids in the states of Arkansas, Louisiana, Mississippi and Texas, with more than 2.9 million customers. Additionally, two generator step-up transformers, which are the highest power and heaviest transformers made in Portugal, one 750MVA 525/22.8kV and the other 760MVA 230/22.8kV, were supplied to McGuire nuclear power station, which belongs to Duke Energy, a customer from the state of North Carolina.

As a result of TRF's constant concern with presenting customers with technologically developed, competitive products, several initiatives were launched during 2016 to improve engineering, design, devising and calculation processes for transformers, of which we can highlight the following:

- **Active part attachment system:** Adjustable tightening system to improve noise levels and reduce losses.

- **Formation of Core Phases:** Automatic calculation based on 3D parametric models and automatic drawing up of the information file.

- **Transient Shell:** Development of a simulation programme for shock waves along shell transformer windings.

- **SmarTHER Core TF:** Design of more thermally efficient transformers, with optimization of the current product development cycle, that are more intelligent and more flexible by using combined multi-physics and multidisciplinary numerical modelling, algebraic modelling and respective multi-scale experimental validation.

- **iCubas5d:** Calculation, design and intelligent manufacturing of tanks for power transformers. The goal is to combine the potential of more modern 3D visualization tools with automatic calculation and design to minimize throughput time, making solutions even simpler and more ergonomic, manufacturing friendly, responding to the increasing number of concerns related to QAS (quality, environment and safety).

- **QT2 Project:** Development of a new range of low noise core transformers.

FINANCIAL PERFORMANCE

ECONOMIC INDICATORS
(MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	118.0	**102.7**	-15.3	-13.0%
Backlog	159.8	**105.6**	-54.2	
Revenue	126.1	**146.3**	20.2	16.0%
Gross Margin	14.3	**18.3**	4.0	28.0%
Gross Margin %	11.3%	**12.5%**	1.2%	
EBITDA	7.5	**7.2**	-0.3	-4.0%
EBITDA/Revenue	5.9%	**4.9%**	-1.0%	

In 2016, orders fell by €15.3m, 13% less than during the same period in 2015. The countries that contributed the most to this reduction were the USA (-€11.8m), Chile (-€5.4m) and Portugal (-€3.8m). However, it is important to note the significant value of the Spanish market, which saw a €12m increase in comparison with the same period in 2015.

Distribution Transformer – EcoDesign.

There was a 16% increase in revenue compared to 2015, meaning around €20.2m. The United Kingdom was the country with the largest growth, around €18m and the partner Scottish and Southern Energy plc was the biggest customer.

The gross margin saw an increase of approximately 1.2pp in 2016. This increase was essentially due to improved margins in the Spanish and Angolan markets.

EBITDA fell by €-0.3m compared with 2015 essential due to exchange rate differences. In 2015, TRF saw a positive value in exchange rate differences in the order of €6m, while in 2016 it recorded negative exchange rate differences of €0.7m. This negative effect completely cancelled out the positive contribution of the increase in gross margin of €4.0m and the reduction in indirect costs of €1.5m.

EXPECTATIONS FOR 2017

A favourable performance is foreseen for 2017, founded on sustained international growth indicators in the sector. This may come in the form of new investments and in growth in the market to replace machinery that has been in service for more than 40 years.

New markets and customers will focus above all on Europe (Northern and Central), and further presence in the USA and the Middle East is also foreseen.

The mobile substation business continues to prove to be very promising and has therefore been enhanced with the creation of an exclusive, dedicated team, with a view to doubling operations in 3 years.

The emphasis on continuous improvement of processes throughout the value chain will certainly lead to an increase in this segment's overall operations, favouring a significant increase in the Operational Performance of industrial units and thereby reducing working capital and delivery times while also increasing supply capacity.

Mobile substation for Colombia – customer: Codensa.

A GLANCE AT THE BUSINESS

FERNANDO VAZ

TRANSFORMER BUSINESS UNIT

The TRF strategy involves growth of approximately 50% in orders. How is this goal intended to be achieved?

The investment in growth for 2017 is essentially based around three regions: Europe, the USA and the Middle East. For Europe, the strategy involves expanding presence to other countries and boosting the success that we have achieved in the United Kingdom, for example. We aim to grow in Spain and France and we have been working since 2016 on type approvals to enter other countries in Northern and Central Europe.

The Middle East is also an extremely demanding market in terms of quality and technical capacity and so can only be accessed by top-level manufacturers. The TRF unit can enter the market by presenting its complete portfolio, long list of references, flexibility in adapting to customers' needs and its reputation of recognized quality. However, to enter these markets, we need to continue with the type approvals we began in 2016 and expand to the largest number of countries in the region possible. Against this backdrop, in 2017 we have already taken part in Middle East Electricity in Dubai and we will be participating in some important calls for tenders that will be taking place.

In the USA, as a market that we already know well and in which we have already built a reputation, we will be enhancing our network of agents on the ground and our dedicated commercial team. We are sure that we will continue to find success in this highly important market and we will manage to harness and achieve a larger number of opportunities.

At structural level, what are the internal measures that are currently being implemented on the ground to guarantee this growth strategy?

In 2016, a range of initiatives was launched that aim to increase competitiveness and will make it possible to complement the distinctive excellence of Efacec technology.

In fact, this distinctive characteristic cannot result in a presence only in niche or special machine markets. We need to guarantee a greater number of mid-range orders, heavily based on framework agreements, which have a need for much more competitive prices. And that is exactly what we are aiming for with this investment in markets such as Europe, the USA and the Middle East.

The emphasis on continuously improving processes throughout the value chain will provide that increased competitiveness of the products and drive a significant increase in the Operational Performance of our industrial Business Units to ensure that deadlines are met, along with a marked increase in production capacity. This output will be fundamental to maintaining performance levels with excellent evaluation by our customers.

As well as these ongoing lean initiatives, we are also equipping the engineering areas with the most recent design, calculation and simulation tools which will make it possible to optimize machine design projects and consequently reduce dimensions and costs.

From a technological point of view, what trends and developments are on the horizon?

This is something that we are monitoring very closely in partnership with the Technology Management Office. As we track trends in the development of Industry 4.0 processes and concerns with environmental sustainability – particularly related to ecodesign, circular economies, use of vegetable oils and low noise machines – we have several ongoing initiatives to respond to such challenges. Other more technological trends, such as regulation using power electronics, HVDC (high-voltage direct current technology), and the introduction of sensors in machinery monitoring, having in mind the integrated asset management for facilities, are also on the roadmap for 2017.

We can say that we have an R&D team that has the right expertise to track new technological trends and launch and implement projects that will enable Efacec to remain at the cutting edge of the sector.

Arroteia Power Transformer Laboratory, Portugal.

SWITCHGEAR (AMT)

The AMT Business Unit carries out its business at by way of five industrial units:

Arroteia – Matosinhos (Portugal): Centre of Engineering and R&D expertise, where all the strands in the value chain of the overall supply are connected;

Santa Bárbara – Tarragona (Spain): Centre of expertise in compact substations, with a scope of operations covering the entire Spanish market;

Prague (Czech Republic): Industrial unit that operates for the whole of the Eastern European market;

Buenos Aires (Argentina): Industrial unit that operates for the whole South American market;

Nashik (India): Industrial unit responsible for producing components and semi-finished products to supply the other industrial units.

269

Number of Employees

€61.8M

Turnover

€6.4M

EBITDA

VISION

To anticipate solutions for energy infrastructures in the new energy era

MISSION

To create value by designing and providing flexible solutions and equipment for electricity production, transmission and distribution systems

STRATEGY

To develop partnerships and a customized, flexible supply of products using a production model with relocation of sourcing and assembly units

Falagueira substation, Portugal – customer: REN.

WHICH GEOGRAPHIES?

STRATEGIC PILLAR	
Technological Innovation	· Increasing the scale of current product lines · Upgrading the current high-voltage product offering · Developing an approach that is integrated with the services of other product Business Units, accelerating revamping services
Operational excellence	· Potentially increasing production in low-cost countries (LCC) · Continuing to make efficiency efforts to lower operating costs, specifically by optimizing procurement
Proactive comercial approach	· Prioritizing a fly-in fly-out model and partnerships to minimize local structures · Intensifying the focus on recent certifications while strengthening business in priority locations · Intensifying joint sales efforts with the aim of achieving synergies in upselling and cross-selling markets and/or customers
Focus on the client	· Faster product certification · Improving deadline compliance (on-time delivery)
Talent Development	· Building a dual career model to boost vocational development for technical functions together with management functions · Reviewing the performance assessment model and including the specific characteristics of career families vs. career groups throughout the company · Reviewing the compensation and benefits model, promoting an approach based on strategic objectives (e.g. proactive commercial approach) and tactical objectives (e.g. lower accident rate) in the Business Units and the Group · Defining a talent management model that makes it possible to identify employees who have high potential and guide them towards faster career development paths · Drawing up a behavioural, functional and management training plan capable of preparing employees for Efacec 2020

The defined strategy is implemented via **19 initiatives** which are foreseen to start having a positive impact on EBITDA in mid-2017.

Opening of a new factory in India.

GLOBAL MARKET VISION

The global switchgear market followed the general trend of the electricity sector equipment market, with very moderate growth and even stagnation in terms of market size in some regions. However, there were some segments of the market that stood out positively in terms of growth, specifically the switchgear market for the solar sector, thanks to the installation of new solar parks around the world.

At regional level, some markets postponed or cancelled projects due to instabilities in the price of the economies' basic raw materials and also due to dependence on external funding. The Middle Eastern market continued to present a considerable number of new projects.

OPERATIONAL PERFORMANCE

Globally, orders rose around 20% compared to the previous year, strongly driven by the Middle Eastern market, which is rewarding the efforts and investments made by Efacec in recent years.

Additionally, 2016 saw new markets open up, including the Russian market, with the supply of secondary distribution (compact switchgear), and the Algerian market reopened with the supply of modular switchgear for secondary distribution.

Several opportunities arose in the renewable energy field to supply photovoltaic substations (PVs) in the European market, driven by EU directives, and in the Latin American and African markets. Some of the opportunities identified translated into orders in 2016, particularly in Portugal and Holland. With the emphasis on renewable energies, transformer substation solutions for wind and solar energy produced at the factory in Spain and the opening of a new factory in India to boost the supply of components and semi-finished products at global level were also important milestones in 2016.

In Eastern Europe, the AMT Business Unit focused all operations on the Czech Republic, and all business in the Czech Republic, Slovakia, Polond, Bulgaria and Romania was conducted from there.

In the Portuguese market, the AMT Business Unit continues to be a market leader and in 2016 it was selected by EDP Distribuição to supply 180 units of its new product – Revac (vacuum recloser, developed for overhead line management), demonstrating the national distributor's recognition of Efacec's technical capacity.

The AMT Business Unit also boosted its presence and visibility in the market by taking part in several events and trade fairs in the sector, such as CIRED 2016 in Helsinki and European Utility Week in Barcelona, which enabled Efacec to position itself as a world player that is recognized in the field.

In 2016, the means of production in Portugal were also enhanced with the construction of new high-voltage laboratories for carrying out final product inspections and cross-cutting lean manufacturing projects were launched with the aim of boosting competitiveness and agility in global markets.

The year 2016 also saw extensive investment in R&D with the construction of new high-voltage laboratories for carrying out tests to support the development of new products and the certification of new high rated primary distribution products (in the Normacel range – 17.5kV – 3150A/4000A and in the Qbn7 range – 2500A), thereby helping open up new markets.

The AMT Business Unit received a delegation from DEWA – Dubai Electricity and Water Authority to certify a factory with the aim of supplying primary distribution equipment from the Normacel range for Dubai's electricity distribution grid. Certification of the factory was completed successfully, and orders are expected to be received in 2017.

The following noteworthy events also took place in 2016:

- Organizational restructuring with the aim of focusing on supervision of the overall supply chain, the development of industrial processes, continuous improvement across all AMT industrial units and technology R&D, launching the foundations for sustained medium and long-term growth;

- Efacec expanded its presence in the Middle Eastern market through its partner in Qatar, ITCC – Imperial Trading & Contracting Company, concluding an order to supply primary distribution units (from the Normacel range) to Kahramaa – Qatar Electricity and Water Corporation. The equipment included in this contract, which is of a highly complex technical nature, will be manufactured at the Arroteia facility and the first consignment is foreseen for October 2017, with a total of 2,200 Normacel units over a period of 3 years.

FINANCIAL PERFORMANCE

ECONOMIC INDICATORS
(MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	62.8	**82.3**	19.5	31.1%
Backlog	55.4	**70.7**	15.3	
Revenue	56.5	**61.8**	5.3	9.4%
Gross Margin	10.8	**14.1**	3.3	30.6%
Gross Margin %	19.1%	**22.8%**	3.7%	
EBITDA	3.5	**6.4**	2.9	82.9%
EBITDA/Revenue	6.2%	**10.4%**	4.2%	

The AMT business is characterized by a combination of small and medium-scale supply contracts, which are normally short-term, typical of the secondary distribution market, together with less frequent large-scale contracts with longer supply cycles, typical of primary distribution.

Some primary distribution contracts had a significant weight in the 2016 indicators because of their size. The ITCC contract for Kahramaa is one such example, worth a total of $36m, and in the last quarter of the year the contract added to and solidified the AMT backlog, explaining the marked increase in orders.

Orders rose 31% in comparison with 2015, creating a solid backlog and, as a result, sustaining the growth expected for 2017.

In terms of revenue (9% more than in 2015) and gross margin (31% more than in 2015), the increase compared to the previous year is heavily linked to both our entry into new markets and direct cost optimization measures in the AMT Business Unit related to component sourcing, streamlining processes and measures to increase productivity.

Alongside all the measures mentioned previously, cost control and reduction for the structured put in place during the year led to an increase in the EBITDA margin from 6.2% to 10.4%, which made it possible to achieve profitability ratios that were quite satisfactory and in line with what was expected.

EXPECTATIONS FOR 2017

Since the Middle East has seen considerable growth in the AMT Business Unit sector, Efacec's presence will continue to be boosted in this market. This will be realized by fulfilling the first orders for countries such as Dubai and Iran, increasing consignments for Saudi Arabia and the start of consignments for Qatar.

Furthermore, it is foreseeable that the growth of renewable energies at global level, particularly in Latin America, Africa and Europe (Portugal, Spain, France and The Netherlands) will be a significant driver of growth for the industrial unit in Spain with the supply of compact substations.

Regarding operations in Argentina, a year of moderate growth is expected in light of the forecasts for the internal market and the Latin America region. The industrial unit aims to increase its revenue by following a commercial policy founded on agents and distributors in the different provinces of Argentina and supplying the Paraguayan, Uruguayan, Bolivian and Brazilian markets.

The concentration of the AMT business at the Prague unit, which was put in place in 2016, will optimize commercial and operational resources, particularly regarding the supply chain, and will enable sustained growth for business in Eastern Europe.

Finally, the investment in continuously improving processes at global level should be enhanced in 2017 with the conclusion of lean projects launched in 2016. These projects will help improve the industrial units' Operational Performance, reducing the capital involved and the time to market, as well as increasing supply capacity to the different markets.

Switchgear showroom, Portugal.

A GLANCE AT THE BUSINESS

ARMANDO FERNANDES

SWITCHGEAR BUSINESS UNIT

At the end of 2016, the Middle Eastern markets played a very significant role in the AMT business. What is the strategy behind this situation?

With poor growth in the European market, the markets that are growing the most in the world in our sector are the Middle East, Latin America and Asia. Since the Asian market is extremely competitive due to the Asian players, the other two markets are a clear point of focus for Efacec.

The Middle Eastern market is extremely demanding in terms of quality and technical capacity (it requires excellent products with high power ratings) and can only be reached by large world players. It is here that Efacec has something to give, thanks to its comprehensive portfolio and renowned quality. We are also recognized by our customers and the competition for having extensive technical capacity and flexibility to customize the final product, adapting it to customer needs, which gives us a great advantage compared to the big world players. When we established the Middle East as a target market, we took all these factors into consideration. However, to achieve this, we had to make significant investments in certifying our products at international laboratories. Thankfully, we were successful and we now have a large potential market in front of us that can only be reached by the best.

Of the structural measures launched in 2016, which ones do you see as being the most important for sustaining business in the long term?

One of the greatest challenges for AMT is its ability to meet the needs of an increasingly demanding, competitive market that can quickly exclude us if we cannot provide suitable answers. Today, customers buy later and later and require appropriate responses. To meet these needs, organizations have to be extremely flexible as well as extremely capable of adapting. As a result, in 2016 the AMT Business Unit launched a range of measures aimed at effectively responding to these questions. Firstly, it changed the organization to focus on control of its supply chain (it operates in 5 different locations), continuous improvement of processes and new product launches (and new power ratings) by improving the resources available. Secondly, it invested in a new factory in India, increasing the capacity to supply components and semi-finished products and lowering the final production costs of its production units. Thirdly, it launched lean projects with the aim of reducing the capital involved in operations and time to market. Together, all these measures will continue to increase our competitiveness in international markets.

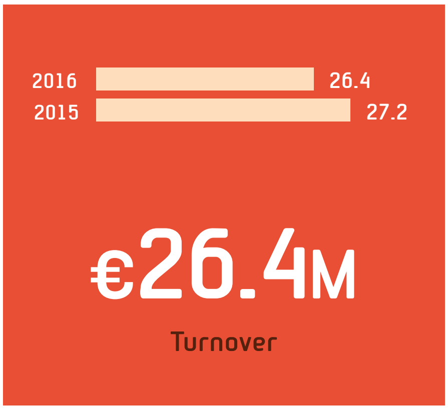
What are the new market trends and how do you think the AMT Business Unit is following them?

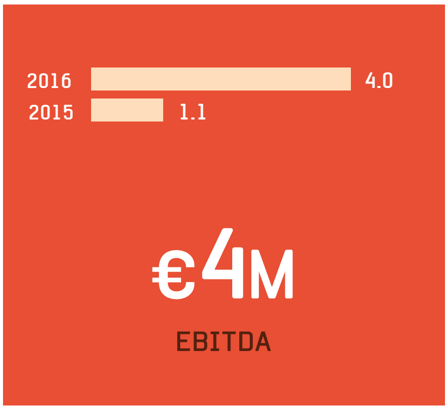
The market has a tendency to require, in the medium and long term, products that are insensitive to the environment where they are installed, that use ecological insulation elements, that do not need maintenance, and that are integrated and remotely controlled, among other demands. These challenges must be clearly identified in order to safeguard the future. Our Technology Management Office is currently developing several products and subproducts that meet the challenges that the market poses for us, from products using SF6-free switchgear technologies to solid insulation, electronic control and sensors.

In short, R&D is one of the basic pillars of the AMT business and we are therefore extremely observant of a market that is constantly demanding.

REVAC facilities in Alhandra, Portugal – client: EDP.

SERVICE (SRV)





VISION

To be a reference as a maintenance service provider and equipment and installation revamping for the energy sector, in the global market

MISSION

To promote solutions and provide maintenance services and revamping with quality, ethics, safety and responsibility, maximizing value creation for our clients

STRATEGY

- To strengthen relationships with our clients in today's markets, meeting their expectations with innovative and diversified solutions
- To increase our geographic footprint, focusing on new markets

WHICH GEOGRAPHIES?

Throughout 2016, the Service business unit had its performance scope revised, integrating all of the maintenance, repair and rehabilitation capacities that were, up to then, dispersed throughout the different product Business Units. This reorganisation aimed to maximize the maintenance business growth potential, as well as giving better and more comprehensive customer service.

STRATEGIC PILLAR	
Technological Innovation	· Empowerment of the Business Unit geared by product logic · Expanding our range of services, focusing on a line of business that holds a sustainable and competitive advantage · Maximising and developing the business of equipment and electrical installations revamping
Operational excellence	· Management optimisation of workshops and repairing units · Improvement/transferring repairing units' facilities, in selected geographical areas
Proactive comercial approach	· Primordial approach to small/medium size markets/clients, with relevant installed equipment · Development of existing commercial structures in the geographic areas where Efacec has a strategic interest · Developing local partnerships to broaden our potential client base and to increase our local knowledge and establishing agreements with equipment providers · Intensify our joint commercial efforts, aiming to capture synergies with the markets and/or with the clients (upsell and cross-sell)
Focus on the client	· Improving our SLAs (Service Level Agreements) agreed with our clients · Improving the compliance of our delivery deadlines (On Time Deliver)
Talent Development	· Building a dual career model, fostering the professional development of technical tasks, as well as management tasks · Revising our performance assessment model, transversally incorporating into EFACE the functional families specificities versus functional groups · Revising our compensation and benefits model, promoting guidance to our strategic (e.g.: commercial proactivity) and tactical goals (e.g.: lowering our loss rate) of all the Business and Group Units · Defining a talent management model that allows us to identify any employees with higher potential, guiding them into faster paced professional development tracks · Putting together a behavioural, functional and management training plan, one that enables us to prepare our employees for the Efacec 2020 vision

The strategy we've outlined is materialised in **10 initiatives**, which should have a positive impact on the EBITDA starting in mid-2017.

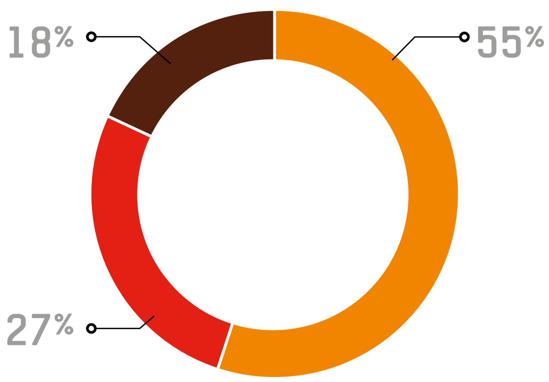
GLOBAL MARKET VISION

In 2016, the asset base installed in the energy utilities continued to age, especially in the European and North American regions. In fact, it was possible to postpone new investments and to extend service life on critical assets that are part of the network, some over 4 to 5 decades old, mainly by inspecting and monitoring at a wider scale.

At a global level, there was also a clear tendency to resort to outsourcing on service activities by the utilities, which was followed through by Efacec itself in the Iberian market. By contrast, the relevant African markets, like Angola and Mozambique, experienced great constraints on their energy investments, thanks to the lowering price of crude oil barrels.

OPERATIONAL PERFORMANCE

In 2016, Service revenues were distributed in the following way, by business segment:



- Power transformers
- Rotating machinery and distributing transformers
- Installations' maintenance and revamping

2016 was marked by the placing into service of the HDVC 96.7MVA 230114kV Trafo Union converter-transformer, after an in-depth intervention that included substituting the winding, designed and manufactured according to Efacec's own technology, at the Hydroelectric power plant in Cahora Bassa, Mozambique. It was an on-site repairing job, unseen in Efacec's history, and therefore a very important landmark that proved the client's confidence in this Group's capabilities.

In 2016, UN SRV was also responsible for remodelling EDP's Boavista Substation, by revamping a type ND5 S QMMT, made by Efacec in 1964. The intervention was done by completely remodelling all boxes, substituting technologically outdated low-oil-content circuit breakers, at the end of their service life, for up-to-date vacuum circuit breakers. The methodology that was used to substitute these circuit breakers allowed for the transformation of a compartmentalised QMMT (with several connecting compartments) for an armored QMMT (isolated compartments, through a grounded metal structure), allowing for greater reliability and safety in the installation's operation.

Throughout 2016, REN has kept their trust in Efacec, by procuring different transformers' reconditioning projects, of which we should point out the servicing provided to the Recarei transformer, of 450 MVA, 400/220/19.97 kV. This service was part of REN's machinery reconditioning and expanding service life policy. The job consisted in drying out the active part, substituting the oil, substituting and improving of the transformer's external protection and refrigeration accessories, including general paint job, with stripping, new conserver, equipped with a balloon to prevent air from coming into contact with the oil, benefiting the fire protection system and also oil monitoring system and crossings.

In Portugal, we have to point out the designing, supplying and assembling of two static excitation systems, and stator rewinding, with total restacking of the magnetic nucleus, of a 5000kVA, 6kV, 750rpm alternator in Senhora de Monforte Plant. In this job, we have to point out the supply of excitation systems, with Efacec's own development, design and installation, as well as the fact that this was done in record time, so that the client's losses due to lack of power generation would be minimal.

As far as Europe is concerned, we want to point out that, in 2016, Germany's VOITH asked Efacec for technical support in the winding of a new 265MVA, 15.75kV, 375rpm alternator, in Waldeck's hydro power plant. For Spain, we saw a significant increase in the repairing jobs for large machinery, in workshops, due to the aging existing transformers.

FINANCIAL PERFORMANCE

ECONOMIC INDICATORS
(MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	25.9	**26.1**	0.2	0.8%
Backlog	11.5	**9.6**	-1.9	
Revenue	27.2	**26.4**	-0.8	-2.9%
Gross Margin	6.5	**7.5**	1.0	15.4%
Gross Margin %	23.9%	**28.4%**	0.5%	
EBITDA	1.1	**4.0**	2.9	263.6%
EBITDA/Revenue	4.0%	**15.2%**	11.2%	n.a.

As far as orders are concerned, UN SRV has registered an increase of 0.8% when compared to the previous year, specifically because of its performance in the Portuguese (11%) and Angolan (110%) markets. In contrast, we saw decreasing numbers in the Spanish (23%) and Mozambican (27%) markets.

As far as revenues are concerned, the decrease was essentially due to the Mozambican market, where there was a decrease of EUR 3 million, compared to 2015.

As far as gross margins are concerned, UN SRV showed an improvement of EUR 1 million in absolute terms, when compared to 2015. In relative terms, the gross margin evolved from 23.9% to 28.4%, specifically because of our performance in the Portuguese and Angolan markets.

In turn, the EBITDA saw a favorable evolution related to our improvement in the gross margins. In addition, the EBITDA also made a positive contribution due to diminishing indirect costs (EUR 0.6 million) and exchange rate differences that, in 2016, came to a positive result of EUR 0.5 million – in 2015, the negative result was as high as EUR 0.7 million. The decrease in overhead costs that occurred in 2016 allowed for some significant improvement in the business's profitability.

EXPECTATIONS FOR 2017

Globalising the UN SRV is both need and opportunity: a need, because of the Portuguese market's small dimension, and an opportunity because of the chance to gain access to new and diverse clients. Therefore, improving the Business Unit's financial and economical performance is inevitably connected to the s uccessful globalisation and access to new clients.

At an international level, UN SRV holds its own structures in Angola, Algeria, Spain and Mozambique. Today, we're ready to provide regular maintenance services in France and Morocco, and it's foreseeable that, in 2018, the same possible in the UK and in the USA. Both countries are crucial for the Unit's strategy, since historically there is good acceptance of Efacec's products, besides the existing installed equipment of considerable size, as well as a close relationship with our clients.

In 2017, we also want to continue to reinforce our commitment to work safety. This issue enables us to significantly improve our working environment, our productivity and quality of work, as well as better organise and diminish the probability of work-related accidents. Efacec has been acknowledging the need to optimise all procedures that aim to ensure the safety of our employees, as well as our commitment to overcome the sector's common normative standards. Because UN SRV has most of its activities occurring at the clients' own facilities, and these activities entail elevated risk, it believes safety is of the utmost importance. For this reason, 2017 will be a year when we will vehemently commit to improving our employees' behavior in this matter, intending to strengthen a culture of discipline and operational excellence, one that will lead us to a zero-accidents' goal, therefore contributing to improving our results.

Nowadays, clients seek Efacec for the benefits to their activities, as well as meeting their demands for answers to their problems, expectations and needs. With this in mind, our business's success is strongly leveraged by our deep understanding of our clients' needs, by our ability to anticipate them and by our continuous efforts to always offer the best possible solution.

As far as people are concerned, we'll be investing heavily in the development of our employees' individual skills and techniques, of the ones that are in direct contact with the client, through specific training and follow-up.

A GLANCE AT THE BUSINESS

TIAGO GONÇALVES

SERVICE BUSINESS UNIT

How is Service positioned in the maintenance sector? And what are the competitive advantages that characterise it and distinguish it from our competitors'?

The Service capacity enables us to provide services using our own equipment or other manufacturers', keeping the highest standards of safety and quality, through a set of highly specialised professionals, offering vertical integration of services to a rather diversified plethora of clients, from small industries to large utilities. For this reason, Efacec can assure its clients that they'll receive adequate diagnosis of their equipment's status, as well as its ability to bring a solution, in the best possible timing and through its own means, to the verified anomalies.

Since globalisation is such a complex process, how do you intend to diminish the risks of acting in other countries, in a business where being close to your client and building a relationship is as important as it is in this one?

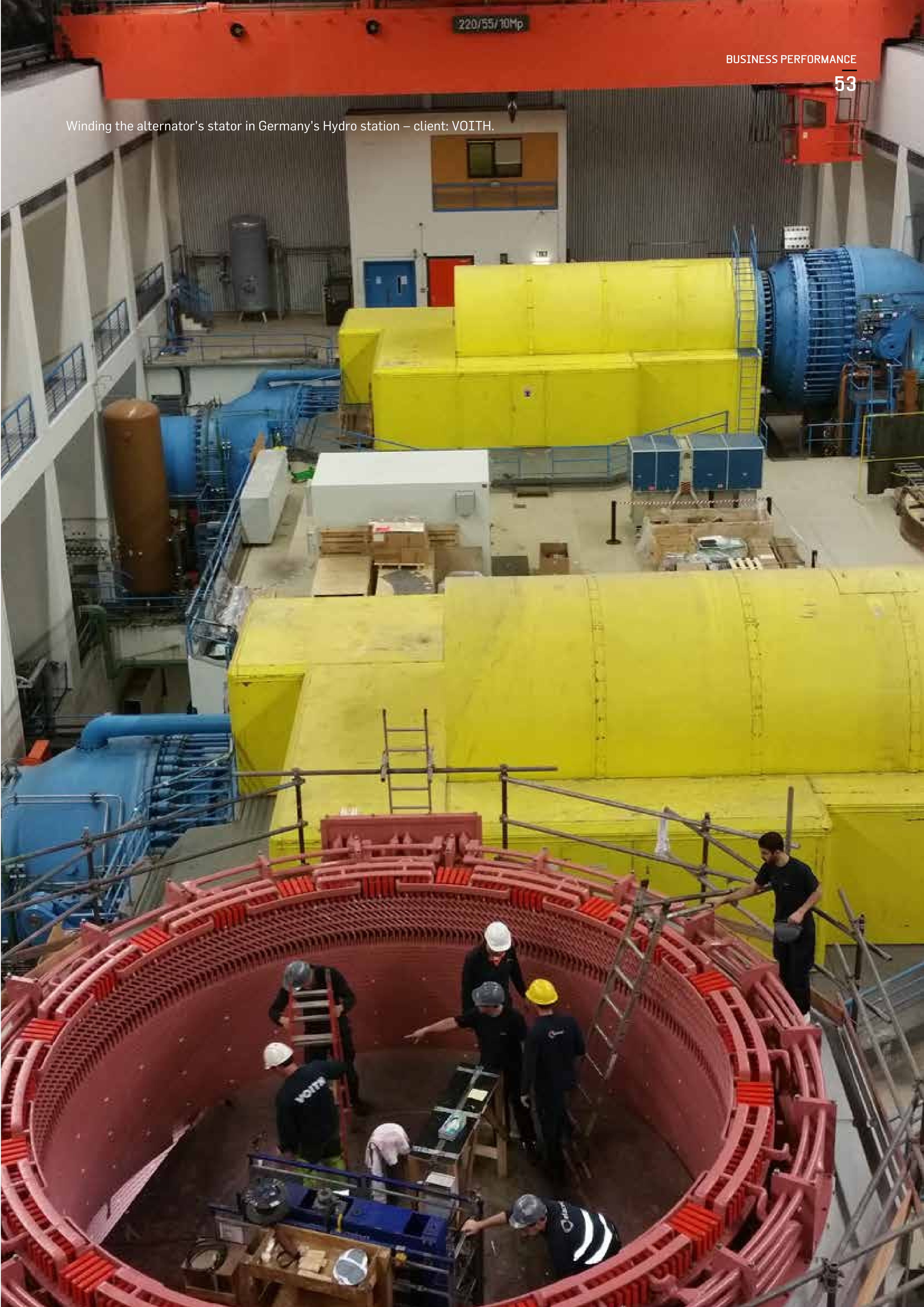
Since there is no one-size-fits-all solution, it's impossible to completely remove all the risks that are inherent to the globalisation process. Today's solution, appropriate for this specific situation or for that particular location, may not work in the same way in a different cultural reality. Yet, from our experience, preparing in a specific manner, performing in-depth studies of each market, committing to building a strong relationship with our clients and seeking the best partners and the best settings in which to perform, may help in successfully mitigating our risks and costs.

The Portuguese market is, and always will be, the Service's business anchor, and for this reason that is where we've been focusing our R&D activity, the specialised know-how and our decision center. As far as the international markets are concerned, we've chosen smaller teams, and they are our frontline for intervention, or strategic partnerships with other smaller companies that are able to be fast-responders effectively, whenever our clients need us to. We do intervene with specific Portuguese resources and means whenever necessary, if the complexity of the situation so requires. In a global market, such as today's, it is key that every company has the skill and the distinct resources that may enable them to overcome hardships and bring solutions to the client. The issue is not who fixes problems, but whether they do get fixed.

In detail, how would you describe your future prospects for the service and the growth strategies that are in line for the unit?

As the markets become wider and more open, and the competition grows and innovative solutions appear at a fast pace, Efacec can't help but transform itself. Nowadays, companies have to be prepared at any given moment, to change, adapt and react to the enormous challenges that come about, threatening their activity. Globalisation is one of the answers, as well as establishing our differentiation with the clients. Competitiveness is more and more related with customising our product and differentiated customer service, as well as the ability to establish partnerships with other players in the market.

Worldwide, there's a tendency to significantly reduce investment in new facilities and in equipment remodeling. In contrast, there's also a clear bet on really knowing the condition of the existing equipment and optimising its usage to the limit. Efacec's stance will have to one of not just focusing on finding solutions for problems and fixing mal-functioning equipment, but also cooperating with our clients to avoid failure, to support critical-asset management, to avoid over-maintenance and premature replacement of equipment, therefore maximizing the assets' availability.



Winding the alternator's stator in Germany's Hydro station – client: VOITH.

AUTOMATION (ASE)

284
Number of Employees

€39.8M
Turnover

€3.7M
EBITDA

VISION

To make Efacec a world-reference in the Systems and Products for Automation, Protection, Energy Systems Management and Energy Conversion market

MISSION

To achieve excellency levels and standards in developing and supplying of Systems and Products for Automation, Protection, Energy Systems Management and Energy Conversion and Space, sustained by a strong desire to continuously improve our multiple stakeholders' satisfaction

STRATEGY

- To guarantee our growth sustainability, by reinforcing the domestic market and increasing our international turnover
- To develop a value proposal rooted on automation and protective solutions, with its own product and high flexibility, allowing for the adaptation to the client's specifications
- Relying on productisation

WHICH GEOGRAPHIES?

STRATEGIC PILLAR

Technological Innovation	· Relying on productisation · Business escalation in Network Management · Positioning ourselves as a reference partner in the hardware roll-out for Medium-Voltage as far as smart grids' development is concerned
Operational excellence	· To continue developing efficiency efforts towards reducing operating costs, namely through optimising procurement
Proactive comercial approach	· Relying on larger scale geographies with better margins, balanced with our presence in lower-risk countries · Focus on markets that have local or regional utilities · Reinforcing local partnerships to serve opportunistic markets and/or countries that have difficulty in accessing the market through Efacec · Increasing joint commercial efforts, aiming to capture synergies within markets and/or clients (upsell and cross-sell)
Focus on the client	· Quicker type approval and I&D projects · Improving the compliance of our delivery deadlines (On Time Deliver)
Talent Development	· Building a dual career model, fostering the professional development of technical tasks, as well as management tasks · Revising our performance assessment model, transversely incorporating throughout Efacec the specificity of functional families versus functional groups · Revising our compensation and benefits' model, promoting guidance towards strategic (e.g.: commercial proactivity) and tactical goals (e.g.: lowering accident rate) of the Group's Business Units · Defining a talent management model that allows for high potential employees to be singled out, guiding them through to more accelerated pathways of professional development · Putting together a behavioural, functional and management training plan, one that enables us to prepare our employees for the Efacec 2020 vision

The outlined strategy is materialised in **18 initiatives**, which foreseeably will have a positive impact on the EBITDA around mid-2017.

GLOBAL MARKET VISION

We've seen a growing global tendency to implement network automation solutions and monitoring, and managing critical assets on behalf of the energy utilities. This is especially relevant in the regions of North America and Western Europe, where the continuous growing usage of renewable energy sources, such as wind and solar power, as well interconnections between regions and countries has generated technical and energy network management challenges, which can only be overcome with automation and control.

Also, globally speaking, there was a macroeconomic context characterised by some restraint or delay in investments. Yet, despite this scenario, opportunities for the Business Unit are still increasingly present, namely in Central Europe, especially Romania, and in South America, especially in Brazil.

OPERATIONAL PERFORMANCE

Thanks to the integration of new businesses, as part of the reorganisation process Efacec is invested in, the ASE BU has defined, for 2016, a new organic structure that favours verticalisation in the different areas of activity, ensuring leadership, focus and result-oriented, promoting synergies' reinforcement, promoting synergies, team work, sharing of knowledge and communication. The new structure will allow for the Business Unit to be favourably positioned as far as the growth challenges that are brought about by the digitalisation of energy networks.

MALASIA

As far as the SCADA system for railroad infrastructure management is concerned, Efacec successfully concluded the Klang Valley Mass Rapid Transit Project, in Kuala Lumpur. This project sought to supply the electric traction network management system with a main power distribution as well as a redundant disaster recovery system. The railroad system in Kuala Lumpur entails a new line between Sungai Buloh and Kajang, including 32 stations distributed along 51 km.

NORWAY

Furthermore, as far as the SCADA system for railroad infrastructure management is concerned, we also implemented the management system for the Bergen Light Rail (red line with 15 stations along a 9.8 km length).

PERU

In August, Efacec successfully finished implementing a control and automation system for ENEL Distribución (formerly EDELNOR) in the 220/60kV transmission substation designated as Malvinas.

CHILE

Efacec also completed and delivered an automation system for substations to Transelec electric power company. The system was implemented in the 220kV Ciruelos substation, as part of the expansion of two AT lines.

TANZANIA

Efacec completed two new contracts for Tanesco – Tanzania Electric Supply Company – which included the supply, configuration and commissioning of automation systems for the 220/132kV substation and for the 150kW thermal energy central, both designated as Kinyerezi. The project was received by the client in a very positive manner, which led to the allocation of other projects for the substation expansion, as well as the main station.

MOZAMBIQUE

A Efacec also implemented the SAS system for EDM – Electricidade de Moçambique, for their 220/66/33kV transmitting substation in Matambo, in Northern Mozambique. This project was part of a more encompassing contract to expand this transmitting substation, which brings power to the largest coal-mining concessions in Mozambique, and it also interconnects the Cahora Bassa hydropower station to the 220kV network.

GEORGIA

Efacec has implemented the SAS system for the Georgian State Electrosystem, an electric-power transmission company in Georgia, in the Jvari relaying substation, which reaches voltage levels up to 500/220/10kV.

In 2016, we'd like to point out the following events:

- Launching of new ranges of IEDs – Intelligent Electronic Devices for protection and transmission, distribution and generation control. (500, 450 and 430 Series).

- Launching 4 large I&D projects, with over 50% financing. DSGrid – digital substations, advanced ADMS4LV – SCADA for distribution networks, NextSTEP – PT do Futuro, and PowerFlow – energy storing with new flow battery technology.

- Awarding of the largest relay-acquisition contract with Electrica Muntenia Nord, in Romania. Notably, in Romania, we supplied several 110/20kV substations with over 1.500 relays of the most recent range of protection and the control IEDs: the 500, 450 and 430 series.

- Awarding a new contract to supply automation systems for substations, for the Electricity and Water Authority of Bahrain, resulting from a long cooperation with Efacec. This contract showed the ongoing preference for Efacec's technology, coming to a total of over 50 commissioned substations all of them equipped with integrated automation, protection and control systems provided d by Efacec, in the past 10 years.

- Signing an agreement for a programme-contract with Energinet – a transmissionutility in Denmark, one of the most prominent in Europe, for equipment and software supply to the substations' automation system pilot-project.

- Supplying the first reference for inverters' solution and control for a hybrid plant (plant with diesel and photovoltaic energy groups) for an industrial client in South Africa The EFASOLAR Hybrid solution works as a flexible platform of photovoltaic inverters and controller that allows for easy integration with already-installed diesel groups or with any other new solutions available in the market.

- PV Stations in the Dutch market.

- Introduction of a new range of PAC products (Protection and Control for MAT/AT/MT) and finishing the appropriate homologations in 15 Power Utilities.

In the space segment, Efacec is developing, together with other three partners, an innovative radiation monitor for the JUICE mission that will orbit around Jupiter in 2022. In this field, Efacec continues to develop altimeters to be used in landing missions to Mars or other celestial bodies. In addition, Efacec is in charge of ALFASAT-TDP8 operations, enabling data gathering, broadcasting tele commands that define the equipment's status. This equipment was supplied in 2013 and has been, ever since, in geo-stationary orbit as part of this ESA and Inmarsat satellite. In turn, the BERM – BepiColombo Radiation Monitor>, delivered to AIRBUS, is in its final tests' stage as part of the spaceship that will be going into space in 2018, to orbit around Mercury.

FINANCIAL PERFORMANCE

ECONOMIC INDICATORS

(MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	30.3	**44.5**	14.2	46.9%
Backlog	51.0	**56.8**	5.8	
Revenue	31.6	**39.8**	8.2	25.9%
Gross Margin	6.6	**9.1**	2.5	37.9%
Gross Margin %	20.9%	**22.9%**		
EBITDA	3.5	**3.7**	0.2	5.4%
EBITDA/Revenue	11.1%	**9.3%**		

ASE's turnover, as well as the remaining indicators, was directly influenced by three relevant events:

- Transfer, to this Business Unit, of three activities – Power, Inverters and Space supply systems – which led to an increase in the business' diversity and an increment in the respective turnover, which resulted in the highest order-volume to-date.

- Change in the criteria for I&D costs accounting, which are now considered operational costs, therefore impacting the EBITDA.

The business that has come from the activities that were transferred on to ASE are the reason for the increase in orders when compared to the previous year, EUR 5.3 million from a of total EUR 14.2 million, and EUR 6.7 million from a total of EUR 8.2 million in revenue. In turn, these transferred activities have impacted the gross margin, from EUR 2.5 million to EUR 1.2 million.

ASE has kept, throughout 2016, a high investment volume in I&D activities (about EUR 4 million), which is the base for the business competitiveness, enabling it to enter into new markets, as well as securing new clients.

To perform a comparative analysis, we must show adjusted indicators of the effects of transferring activities and the R&D's costs' criteria standardisation.

ADJUSTED ECONOMIC INDICATORS
(MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	37.2	**44.5**	7.3	19.6%
Revenue	38.1	**39.8**	1.7	4.5%
Gross Margin	8.9	**9.1**	0.2	2.1%
Gross Margin %	23.4%	**22.9%**		

EXPECTATIONS FOR 2017

The ASE BU foresees that 2017 will be a year of great challenges, with new products being launched, opening up to new markets and the start of new areas of activity, transversely supported by a new organisational model, heavily client-oriented and demanding operational excellency, as well as an ever-growing reliance on technology and sustainable growth.

Despite the fact that these perspectives of growth are quite aggressive, there is confidence in the Unit and the belief that the goals that were set-out will be attained, since the business plan is based on a set of commercial opportunities that safely meet the demands of the plan that was laid out.

In parallel, the Unit will pursue the development of its outlined strategies, such as implementing a new business model for the sale of protection and control products, launching a new storage activity area, as well as a vast number of initiatives in technological innovation, of operational excellency, of commercial proactivity, focused on the client and on developing talent.

For 2017, our goal is to also simplify working methods and internal procedures, seeking to make the Unit more agile and homogenous, ensuring greater speed and efficiency in our response to the client and to the market in general.

Finally, one of our goals for 2017 is to set up the foundations to make ASE BU one of the best companies to work for in Portugal, in its field of expertise.

Malasia's rail command centre.

A GLANCE AT THE BUSINESS

PAULO VAZ

AUTOMATION BUSINESS UNIT

What are the contributions that you attribute to the new range of protection and control products, for the next five years?

The new product ranges include third generation technology in this field of Efacec's activity. Nowadays, we have a state-of-the-art range of products characterised by a larger breadth of functionality, compared to the previous generation, that embodies the more than 25 years of experience in the digital protection field. Developed from the ground up, based on standards for information modelling and functions like the IEC 61850, thus enabling us to respond to the international markets' requisites, Efacec's technology also shows differentiating characteristics such as total integration, in a single engineering software of all the range of products from transmission relays and local and central SCADA units, to the Medium-Voltage feeders. This new setting creates a unique set of technology/service value for all our clients and for our partners.

In addition, we're revising all our product processes and technology, our value chain, and systemising the go-to-market in parallel with investing in R&D as far as the next generation of products is concerned. In 2017, we'll be providing the necessary sustainability that can leverage a strong international economic growth in the next 5 years, together with our partners, making us a go-to partner in multiple geographies.

In such a context of organisational change and in a setting where digitalisation is a promising factor for this sector's transformation, how do you see ASE's placement to be and its role?

The emergency of big data, of thecloud, of the Internet of Things or Artificial Intelligence, is, even today, a reality, and 2016 established a new level as far as the expectations for the digitalisation of the industry are concerned, establishing a way-above-average perspective of growth for all digitally-based businesses. The future of all energy systems is a digital one and will be fixed on three axes: optimisation, flexibility and consumer's experience.

As to the energy networks, we stand at a turning point as far as asset management, electric mobility penetration, storage, dispersed source production such as solar, photovoltaic and micro-grids, are concerned. These are not new concepts, but they are just coming to the industrial world and they can only be integrated in it if they're managed by digital technologies. ASE BU gathers a set of unique skills as far as network digitalisation is concerned and we're in the crux of this transformation, from Very High Voltage to Low Voltage, and also management and support software. We have a unique profile.

Is the unit ready for this new technological paradigm, and, at the same time, to meet all the demands of next years' planned growth?

ASE BU clearly understands what has to be done and what are the critical factors for success that we need to include to be successful in all these challenges.

We're in the frontline of what has been discussed as far the market's evolution is concerned, mainly the technological evolutions we've seen, and the clients' needs in terms of energy automation systems. On the other hand, revising our procedures, launching new products and also our highly skilled human resources, enables us to ensure, with great confidence, that we're in the frontline of the bestplayers in the market.

ENERGY (ENE)

219

Number of Employees

€90.9M

Turnover

€5.3M

EBITDA

VISION

Anticipating solutions for a sustainable business

MISSION

To execute construction projects for electrical and mechanical infrastructures, for clients in the industrial and in the Energy Distribution and Transmission sectors, under a turnkey/EPC contract with value creation, through the integration of different skills and technologies

STRATEGY

- Consolidate its position in the utilities sector in Portugal
- To maximise the existing relationships with customers and utilities sites in Africa, Central Europe and in Chile
- To expand the activity to new clients and selected target-markets

WHICH GEOGRAPHIES?

STRATEGIC PILLAR

Technological Innovation

- Developing our offer of financing solutions for the clients' projects
- Proactively seeking business opportunities associated with public funding for electric plant building
- Relying on diversifying the mix of renewable energy projects in order to achieve a balance between risk and profitability

Operational excellence

- Integrated management of the execution resources for projects in the systemic areas
- Developing skills/procedures for risk management and project management

Proactive comercial approach

- Improving commercial skills, promoting synergy with the remaining systemic areas
- Evolution of our footprint to ensure scaling
- Reinforcing our commercial partnership network in countries where Efacec has difficulty in reaching the market

Focus on the client

- Developing partnerships supplementary to the project, with special focus on sharing of risks and faithful execution

Talent Development

- Building a dual career model, fostering the professional development of technical tasks, as well as management tasks
- Revising our performance assessment model, transversally incorporating throughout Efacec the specificity of functional families versus functional groups
- Revising the compensation and benefit model, guiding it towards its strategic (e.g.: commercial proactivity) and tactical goals
- Defining a talent management model that allows for high potential employees to be singled out, guiding them through to more accelerated pathways of professional development
- Putting together a behavioural, functional and management training plan, one that enables us to prepare our employees for the Efacec 2020 vision

The outlined strategy is materialised in **11 initiatives**, which foreseeably will have a positive impact on the EBITDA around mid-2017.

GLOBAL MARKET VISION

The lowering price on the crude oil barrel has led to a decreasing performance of the economies that depend on this resource, contributing to the postponement or decline in larger projects and consumer goods importing in these regions.

The economic behaviour of the emerging or developing economies has remained, in 2016, uneven, which contributed to a stagnated number of EPC projects for Substations and Hydropower plants throughout the year. As far as the Renewable segment is concerned, we registered growth in the Solar EPC market, as a result of installing new solar parks at a global level.

OPERATIONAL PERFORMANCE

In 2016, the ENE BU reached one of its best results of the last years. This was mainly due to the diversification of origin in the orders, from various regions and markets, diminishing the impact of the international crisis.

Operationally speaking, 2016 was a year of improved performance in efficiency and in project management, in cost and risk control, and in planning correctly for the rigorous shutdown of the legacy projects in Algeria.

SUBESTAÇÕES

In 2016, in the Substation business, the ENE BU completed a significant set of projects in the Eurasian region, namely Armenia and Georgia. As a relevant milestone, we should point out the completion of the 500/220kV Jvari Substation, in Georgia, the first 500kV Substation that was built in the turnkey regime by Efacec. Likewise, we completed the Medium Voltage Substations network reinforcement and also the associated transmission network in São Tomé and Príncipe, as well as several projects for Substations in Portugal, Angola and Mozambique.

In Angola, we should point out the design and completion of several substations as well as building and completing a 30/6kV Substation for the Calueque Dam.

In South America, the highlight was the building of Substations in Chile, the procurement of two turnkey building contracts for substations, for Transelec and for the El Arrayán Wind Farm.

In the Maghreb region, the ENE BU won an international competition organized by STEG - Société Tunisienne de l'Electricité et du Gaz – to build and expand 28 substations, in a turnkey agreement, which referred to the 11th Plan for the Energy Transportation Network of Tunisia.

HYDROPOWER PLANTS

As to the Hydropower Plants' business, 2016 was characterised by the continuation and completion of on-going projects in Portugal, for EDP, and by an increasing number of projects in Africa, namely in Angola.

As far as EDP is concerned, the highlight is on the completion of Salamonde II 250MVA Hydropower Exploitation, as well as finishing assembling the main systems and beginning of testing in the Foz do Tua 2x150MVA Hydropower Exploitation.

In Angola, we point out the commencement and consignment of the Luachimo Hydropower Exploitation, one of the most important jobs in this area, a job that will be going on for the next 3 years. This venture is located in the Lunda Norte province, and it entails rehabilitating the equipment in the existing dam and building a new power plant, which will be equipped with four new generators, with 11 MVA each, and is part of the several jobs that were procured with Efacec: the detail engineering, building, transportation, assembly and commissioning of all the hydro mechanical equipment, generator groups (turbine and alternators), electric installations and automation.

RENEWABLE ENERGY

In 2016, producing electricity from renewable energy sources had identical costs to producing power from fossil energy. This situation was partly a result of the significantly reduced costs for photovoltaic modules that we've seen in the last years and, consequently, of the investment's associated value. Despite this, we saw no significant accomplishments in the Unit's target markets, in 2016. This delay in the performance cycle will foreseeably be reverted in 2017.

We should point out, in 2016, the completion of the S. Pedro VI 23.7MW Solar Farm, in Chile, in the Atacama Desert.

FINANCIAL PERFORMANCE

ECONOMIC INDICATORS
(MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	48.8	**105.4**	56.6	116%
Backlog	182.7	**190.2**	7.5	4%
Revenue	102.1	**90.9**	-11.2	-11%
Gross Margin	6.0	**10.9**	4.9	82%
Gross Margin %	5.9%	**12.0%**		
EBITDA	1.1	**5.3**	4.2	382%
EBITDA/Revenue	1.1%	**5.8%**		

The ENE BU received, in 2016, orders in the amount of EUR 105 million, which represent a significant increase when compared to the previous year (+116%).

In the Hydropower area, the orders received in 2016 include several projects with EDP, namely the Energy Production Management project for the Foz do Tua plant and Salamonde II, which amounts to EUR 5 million, and an adjustment to the Hydropower Rehabilitation contract in the Luachimo Dam in Angola, to the amount of EUR 10 million.

As far as Substations are concerned, the main contributions came through the STEG (Tunisia) contract, to the amount of EUR 39 million, and the Don Goyo Substation contract – El Arrayán Spa Wind Farm (Chile) in the amount of around EUR 18 million, and for the New Valdivia 220kV Substation, for Transelec. In Armenia and Georgia, we point out the contracts for substations, in the amount of EUR 8 million. In Angola, we point out the new contract with Coca-Cola, to the amount of EUR 3 million.

As to the Renewable energies area, Efacec signed a contract with Planta Solar S. Pedro Photovoltaic Farm, to the amount of EUR 3 million.

As to the backlog, the orders placed at the end of 2016 match approximately two years of revenue.

Salamonde II Central, Portugal.

When compared to 2015, revenue for 2016 showed a decline of 11%, due to a pronounced drop in the Renewable energy activities (EUR -23 million), partially compensated by a rise in the Hydropower area (EUR +10 million), and impacted by the late start, later than scheduled, of two important projects: STEG (Tunisia) and Luachimo (Angola).

Through the improved performance of the projects that were completed during 2016 in Chile, in Portugal and in Georgia, we achieved a substantial improvement in the gross margin of that period, directly reflected on the EBITDA, associated to a continued trend in the reduction of fixed costs (approximately 5%).

EXPECTATIONS FOR 2017

For 2017, in the substation business, Efacec intends to consolidate its position in Portugal, in the utilities sector, particularly with EDP and REN, and also in all the substations for Renewable Energy farms without preferential tariffs.

The Unit's main focus, globally speaking, will be on maximising the existing relationships with clients and local utilities in Africa (Angola, Mozambique, Guinea-Bissao and São Tomé), Central Europe (Armenia e Georgia) and Chile, as well as to expand our activity to reach new clients and selected target-markets.

In the Hydropower plants' business, we want to meet the multiple demands from Portugal, in the on-going projects. Yet, because of decreasing investment in the domestic market, the Unit's focus has to be one of pursuing its globalisation strategy, particularly in the macro regions of Africa and Latin America, namely Angola, Colombia and Mexico.

In the Renewable Energy business, the Unit will be seeking to consolidate its position in the market by identifying potential clients in small and medium-size projects, up to 5MW, pin-pointing the opportunities that arise in Latin America and Africa and also by seeking partnerships with the sector's players for larger, 60MW, projects.

Because of the deregulation in the free-tariff market in Portugal and the increasing licensing of solar farms, there is the possibility that this area will show significant growth in the domestic market's turnover, potentially bringing several new orders. At the same time, we foresee growth in our order-acquisition power from Africa, in medium-sized solar farms, up to 30MW, namely in the Ivory Coast and in Kenia.

23.7MW S. Pedro VI Solar Farm in Chile, in the Atacama desert.

A GLANCE AT THE BUSINESS

CARLOS FREITAS

ENERGY BUSINESS UNIT

It's foreseeable that the solar market will grow in Portugal. In what way is Efacec's strategy equipped to respond to the new trends that come from that possibility?

We expect these opportunities in the free-tariff solar market in Portugal to be fulfilled and to become a reality. A lot of our growth in the solar market is dependent on the Portuguese market and we're prepared for that, as a result of our extensive experience in building solar farms under EPC contracts, both in Portugal as well as internationally, namely Romania, Bulgaria and Chile. In Chile, our greatest accomplishment is the 57MW farm built in the Atacama desert, which shows one the best efficiency-rates worldwide. Because of this, we've gained experience in project and engineering development, based on the specific products we make for this purpose (PVStations and Power Transformers), as well as the partnerships we've established with solar panel manufacturers, combined with our internal synergies, namely in the Substation field that is supplementary to building the farms. We do have a competitive advantage that allows us to look to the projects ahead of us, in Portugal, with confidence, which will allow us to reach our growth objectives in this market, and also to be strong contributors to the solar business.

What about the Hydropower plants' business, what is Efacec's view of the future and the strategy defined to reach it?

Ever since the 90's up until now, we've seen major investments in Portugal as far as water resources and large dams' exploitation is concerned, in which Efacec has participated actively both in the building of small and medium-sized hydro exploitation plants of Agilde, Roxo and Ruivães, as well as larger dams like Alqueva II, Ribeiradio and Ermida, Salamonde and Foz do Tua. This active participation allowed us to develop skills and to accumulate know how in the BOP – Balance of Plant, electromechanical and hydro mechanical areas, as well as in project management. This allows us to be a player as far as Hydropower plants with a capacity to develop medium power/dimension under an EPC contract are concerned, and to be a part of larger projects for hydropower plants and dams, partnering with the most important players in the market. This way, we manage to split the risk and share experiences with supplementary entities in the engineering business. The end of a cycle of larger investments in the Hydropower business in Portugal and the know how and experience acquired and accumulated, allows us to confidently look at the future and to replicate our international experience as we successfully enter such markets as the African and very likely the Latin American market also.

What about the future of the substation business, how do you see it?

The substation business is part of Efacec since the 1980's. Its references are spread out throughout the world, up to 500KV, in places like Brazil and Georgia where, in 2016, we finished building a new 500/220KV substation with great success, under a turnkey contract. Because of this globalisation, Efacec has accumulated both know-how and experience, as well as skills that encompass different areas, such as construction, designing, sizing, supplying, managing, supervision and commissioning. This experience has been evolving through very strong skills, as far designing and sizing are concerned. As to our managing, supervising and commissioning skills, we've been following the market's trends and evolution when it comes to using new calculation tools and 3D designing. We've also been reinforcing our skills in project and risk management, and this has allowed us to be more efficient and to have better outcomes when building our projects. The challenge in the next few years will be to consolidate our presence in Central Europe, Chile and Africa, namely in Northern Africa and Southern Africa, where we hold a strong position. We also want to put this advantage together with our entrance into new selected markets and by improving our customer acquisition.

We use internal cross-selling to strengthen our presence and our products' integration in the markets, due to the LCC manufacturers' strong competition and presence. We also seek to strengthen our partnerships and to maximise the usage of products manufactured by more competitive clients.

We'll also be increasing our presence and our references in the GIS – Gas-Insulated Switchgear, substations' segment, seeking out new partners, and investigating and developing skills as far as the HVDC is concerned.

Ribeiradio Dam – Hermida – client: EDP.

ENVIRONMENT & INDUSTRY (AMB)

149
Number of Employees

€46.5M
Turnover

€4.3M
EBITDA

VISION

We intend to take our place as a global reference and as a player supported by our know-how and skills, acquired in the field of project development for the Portuguese market

MISSION

To conceive, to design, to complete and to recommission the infrastructures and solutions for the business segments we operate in, under turnkey contracts, and the respective maintenance and operation

STRATEGY

- To develop supplementary strategies (e.g.: building and construction)
- To broaden our offer in Waste Management through technological partnerships
- To diversify the geographical markets, maximising growth
- To revisit past geographies, relying on cautious risk management

The environmental business began in the 1970's for Efacec, and since then it has been meeting the growing need to create systems and infrastructures that can deal with the constant and increasing pressure that comes from human development. In the 2010's, using the existing synergies in the target geographies' markets and the end clients, Efacec decided to join the Industry's activity, by creating the Environment and Industry Business Unit.

Solid Waste Treatment Plant, Malta.

WHICH GEOGRAPHIES?

STRATEGIC PILLAR

Technological Innovation	· Expand the supply in the Water and Waste business, through technological partnerships · Increase offer in the biomass plants' activities and the hybrid generation plants
Operational excellence	· Integrated management of the execution resources for projects in the systemic areas · Developing skills/procedures for risk management and project management
Proactive comercial approach	· Improving commercial skills, promoting synergy with the remaining systemic areas · Keeping our fly-in/fly-out model for countries that don't have an Efacec structure, using local presences that radiate to the neighbouring countries · Geographical diversification that maximises growth
Focus on the client	· Developing partnerships supplementary to the project, with special focus on sharing of risks and faithful execution
Talent Development	· Building a dual career model, fostering the professional development of technical tasks, as well as management tasks · Revising our performance assessment model, transversely incorporating throughout Efacec the specificity of functional families versus functional groups · Revising our compensation and benefits' model, promoting guidance towards strategic (e.g.: commercial proactivity) and tactical goals (e.g.: lowering accident rate) of the Group's Business Units · Defining a talent management model that allows for high potential employees to be singled out, guiding them through to more accelerated pathways of professional development · Putting together a behavioural, functional and management training plan, one that enables us to prepare our employees for the Efacec 2020 vision

The outlined strategy is materialised in **10 initiatives**, which foreseeably will have a positive impact on the EBITDA around mid-2017.

GLOBAL MARKET VISION

In the Environment market (Water and Waste), especially in the countries that depend more on oil resources, we have seen a delay in investment policies. However, the countries in the North of Europe inverted that trend, proving themselves to be particularly active in 2016, with regard to investments. In the water supply and treatment sector, there were still significant deficiencies regarding water supply and basic sanitation, in particular in the African markets and in the Balkan States of Europe, countries which are closely monitored, given the future potential for projects regarding infrastructures. Furthermore, in 2016 we started a new cycle of investment in Portugal, as far as waste treatment is concerned.

In the Industry market, in 2016, certain countries continued to have significant needs for the production of thermal energy, such as the African market, for example. For those cases, a hybrid production concept was developed, which can provide greater flexibility and be more advantageous for energy production.

On a global level, the ageing of existing infrastructures also led to an increase in the need for their improvement and renovation, therefore meaning opportunities for Efacec.

OPERATIONAL PERFORMANCE

Throughout 2016, the Unit implemented high-complexity, large-dimension projects in several countries: Portugal, Spain, Romania, Denmark, Malta, Algeria, Morocco, Angola, Cape Verde, São Tomé and Príncipe and Mozambique.

WATER

In 2016, of particular note in Portugal, was the start of the remodelling/renovation of one of the largest Water Treatment Plants in Portugal (Vale da Pedra ETA), as well as the start of the remodelling of the Waste Water Treatment Plant in Matosinhos, where in both cases Efacec was responsible for all the electro-mechanical components. Efacec consolidated its presence as a benchmark supplier to EDIA (Alqueva Development and Infrastructure Company), having concluded the projects for hydro-agricultural use in the Beja Block and hydro-agricultural use in the Roxo-Sado Block. In both cases, Efacec implemented the entire electro-mechanical component for the respective pumping stations, as well as the associated irrigation networks.

In Angola, we should point out the completion of the Calueque Dam, where Efacec was responsible for all of the electromechanical components of the pumping stations.

SOLID WASTE

In 2016, worth highlighting is that Provisional Acceptance was obtained for the Mechanical-Biological Waste Treatment Plant in the North of Malta, with a foreseen capacity for treating around 40% of the solid urban waste currently produced in the country.

We achieved our objective of entering the markets in the North of Europe in 2016, with the order and execution of the Solid Urban Waste Mechanical Treatment Plan in the city of Aalborg, Denmark, for the customer, Reno Nord. This installation stands out for being the first plant in Denmark with automatic mechanical separation of materials of a significant size.

In Cape Verde, we would point out the continued work on special installations project for Hotel Hilton on the island of Santa Maria, where we expect to carry out additional work in the future.

In Morocco, it is important to mention the conclusion of the system of telemanagement and automation of 7 pipelines and a distribution network in the Northern area of the country for the customer ONEP - Office National de l'Eau Potable.

INDUSTRY

The conclusion of the Santo Amaro 2 Electricity Production Plant in São Tomé and Principe, was also of relevance to the results obtained by the Unit in 2016. Set up on the plot of the Santo Amaro 1 Plant, with Diesel engines, this new Plant has an installed capacity of 6 megawatts.

In Angola, final acceptance was obtained for the CCRL – Combined Cycle Refinery Plant, in Luanda. This plant has a total installed power of 33MW and has been operating since 2015.

In Mozambique, we managed to obtain the final acceptance for the Thermal Power Plant in Inhambane.

The extension to the DCS System for the Aboño 2 Plant, in Spain, was also successfully concluded.

In 2016, we should highlight the following events:

- Further implementation of an operation and maintenance contract for the Ave region's sanitation subsystem, as well maintenance for the water supply system in the greater Oporto region;
- Obtaining the order for the expansion of the Container Terminal in Maputo's Harbour, where Efacec was responsible for its electromechanical components;
- Obtaining the order for the expansion of the Thermal Plant of Caminho Novo, in São Jorge island, in the Azores;
- Reinforcing our partnership with the Thyssen Group, completing several orders for dedusting.

FINANCIAL PERFORMANCE

ECONOMIC INDICATORS
(MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	30.7	**29.2**	-1.5	-4.9%
Backlog	115.4	**88.8**	-26.6	
Revenue	63.7	**46.5**	-17.2	-27.0%
Gross Margin	10.7	**10.2**	-0.5	-4.7%
Gross Margin %	16.8%	**21.9%**	5.1%	
EBITDA	7.7	**4.3**	3.4	-44%
EBITDA/Revenue	12.1%	**9.2%**	-2.9%	

In 2016, the UN AMB saw its total order value reach the EUR 29 million, which represented a drop of 5% when compared to the previous year. The reason for this drop was the impossibility to penetrate new markets, which would have counteracted the pronounced decrease of order numbers in geographies like Cape Verde (EUR -4.7 million, in Waste), São Tomé and Príncipe (EUR -5 million, Thermal) and Romania (EUR -5.4, Waste). Despite the adverse macro-economic environment, we struck important deals in Portugal which have allowed us to partially compensate for the dwindling numbers in several external markets.

The steady value of the orders that were received in 2016, compared to the same period, worked down the Unit's backlog. At the end of 2016, the backlog was still the same as almost 2 years of revenue coverage.

2016's revenues, when compared to 2015's, show a decrease of about EUR 17 million, which represents a relative drop of 27%. The contributing factors to this drop are part of the residue area of business (e.g. Malta, which represented about EUR 13 million in the year before) projects in Portugal, namely in the Water area (EUR -33 million) as well as several UTE's – Usinas Termelétricas de Energia in Brazil, in the Thermal area of business, which contributed to a drop of about EUR -3.2 million when compared to the previous year. These drops have been partially compensated by an increase in our activity in Portugal (EUR +2 million in Thermal), in Cape Verde (EUR +3.3 million in Residue) and also by our entering into new countries in Northern Europe (EUR +2 million in Residue).

As to the gross margins, we saw improved performance in some of the projects that were accomplished in Portugal and the completion of some of the work we started in Angola, which allowed for balancing the gross margin in value and improving the percentage on the gross margin for this accounting year, despite the decrease in revenue.

Revenue, balance the gross margin in value and improve The gross margin percentage of this fiscal year Substantial reduction of the EBITDA compared to the previous year, from to 7.7 to 4.3 million, is associated with the favourable exchange-rate differences of about EUR 3 million in 2015. Excluding this effect, the EBITDA would be in line with the previous year, leveraged by a continuous trend of lower fixed costs, which was, in 2016, of almost 10% compared to the previous year.

EXPECTATIONS FOR 2017

For the future, it's crucial to secure the opportunities that are still in the Unit's existing markets, particularly in Portugal, Northern Africa (Algeria is the most prominent), Angola and Mozambique. Yet, given the present macro economical context of these geographies, it's essential to rely on entering new markets and improving customer acquisition, in areas like the Environment, especially in geographies such as Northern Europe (Ireland, Denmark, Norway, The Netherlands and Sweden), as well as Oman and some of the still unexploited markets (Ivory Coast, Uganda and Botswana). Some of the new markets to be approached, namely Oman and the African countries, still show specific opportunities as far as the Industry area is concerned, essentially in the Thermal Plant business.

For this reason, Efacec is now concentrating its efforts and bringing synergies together to promote the acquisition of projects in these regions.

We predict that there will be significant impact from the implementation, that began in late 2016, of the Transversal Directorate of Operations common to all of the Group's System Business Units, an approach that we expect will increase efficiency of means and improve our results in fulfilling projects. In addition, we predict the implementation of a Transversal Engineering Division to the several organised structures of the Unit, expecting increased quality and efficiency of the procedures and resources to be used. Bringing about these measures, we aim to give the AMB BU enough capacity to focus on the most relevant aspects of its future growth: securing orders and expanding its portfolio through the consolidation of our partnerships and the existing technology, as well as a greater reliance on our own R&D.

Electric Power Production Plant of Santo Amaro 2, São Tomé and Príncipe.

A GLANCE AT THE BUSINESS

JOSÉ SOUSA

ENVIRONMENT & INDUSTRY BUSINESS UNIT

As far as Waste is concerned, in 2016, we point out the provisional acceptance of the Mechanical and Biological Treatment Waste Plant, in Northern Malta. What are the particulars of this project and how did Efacec create value for its client?

The referred infrastructure – Mechanical Treatment Waste Plant – has the capacity to mechanically treat about 113.000 tons a year (47.000t/year of common industrial waste and 66.000t/year of solid urban waste) and to biologically treat the respective organic portion, and as much as 39.000 tons a year of manure from the livestock industry. The biological treatment is done through anaerobic digestion, producing biogas and generating electrical power estimated in 11.000MW/year. This plant expects to treat about 40% of solid urban waste that is produced in Malta.

As far as performance and environmentally related activities are concerned, specifically the Water and Waste sectors, which events would you like to highlight in 2016?

As far as orders are concerned, entering the Northern European markets through the securing of an order that surpasses the EUR 2.5 million-mark was very significant and should be noted. The project was for the Solid Urban Waste Mechanical Treatment Plant in the city of Aalborg, Denmark, for Reno Nord. This was the first Automated Mechanical Triage Plant for considerable-size materials in Denmark, and for this reason it's especially relevant to the next investments that are planned for this country In Portugal, in the Water business, despite the evident investment decline, we point out the order for building the Wastewater Treatment Plant in Beja, valued in approximately EUR 4 million, which wouldn't have been obtained if Efacec hadn't presented a quality solution. Our excellent presentation was also important to obtain one of the most important orders of the year in the Water business: the requalification of the ETAR of Matosinhos (over EUR 4.5 million).

What about Industry-related activities, which events were more relevant?

In that respect, we should highlight maintaining Sonangol's trust in us as our client, as we extended our period of Operation Supervision and CCRL Maintenance, which resulted in an order of more than EUR 3 million in value. In Mozambique, despite the extremely adverse economic environment, we secured the order for the Container Terminal Expansion in Maputo's Harbour, which amounts to more than EUR 2 million. This deal made Efacec responsible for the electromechanical component of the project (supplying emergency generators, expanding the main medium-voltage switchboards and supplying a supervision system). In Portugal, one of the most notable contracts was securing an order to expand the Thermal Plant of Caminho Novo, in São Jorge island, in the Azores, which amounted to more than EUR 3 million, for EDA – Electricidade dos Açores. As for Dedusting, despite the postponement of investment that a few clients opted for, we were able to reinforce the existing partnership with one of our main partners (Thyssen Group), through the completion of several orders, of which we point out the order for sleeve filters for the Sigusfa factory in Algeria, an order of more than EUR 1 million.

Combined Cycle Refinery Plant in Luanda – client: Sonangol.

TRANSPORTATION (TRP)

189
Number of Employees

€29.9M
Turnover

€3.0M
EBITDA

VISION

To be acknowledged as a reference partner in the implementation of innovative, safe and efficient systems, dedicated to the Transportation sector

MISSION

To conceive, to design, to sell, to supply and to recommission the infrastructures and solutions for the business segments we operate in, under turnkey contracts

STRATEGY

- To increase our presence in the Northern European markets, based on our reputation and accomplishments
- To promote the development of new products, guaranteeing the distinctiveness of our solutions

WHICH GEOGRAPHIES?

The Business Unit shows a variety of offers, of which we'd point out the operating support systems for light rail (Timekeeper e Tramkeeper), signaling systems for light rail and low-traffic railway lines, including automated safety solutions for railroad crossings (AEGIS and XSafe), integrated control platform, control and operation (EFARAIL), traction systems and energy distribution infrastructures, public information systems and smart video surveillance (INOSS), transmission and communication systems.

STRATEGIC PILLAR	
Technological Innovation	· Providing for Energy solutions for Transportation and Signaling & Telematics · Placing ourselves as a prime contractor in new light rail projects
Operational excellence	· Integrated management of the execution resources for projects in the systemic areas · Developing skills/procedures for risk management and project management
Proactive comercial approach	· Using the existing commercial structures in Efacec's core geographies · Boosting our global integrated offer for light rail · Improving commercial performance, by promoting new market's prospection and partners acquisition
Focus on the client	· Reinforcing and diversifying our supplementary partnerships as far as products and a global offer in transportation are concerned
Talent Development	· Building a dual career model, one that instigates the professional development of technical tasks, as well as management tasks · Revising our performance assessment model, transversely incorporating into EFACE the functional families specificities versus functional groups · Revising our compensation and benefits model, promoting guidance to our strategic goals (e.g.: commercial proactivity) and tactical goals (e.g.: lowering our accident rate) of all the Business and Group Units · Defining a talent management model that allows us to identify any employees with higher potential, guiding them into faster paced professional development tracks · Putting together a behavioural, functional and management training plan that enables us to prepare our employees to fulfill the 2020 EFACEC vision

The outlined strategy is materialised **8 initiatives**, which foreseeably will have a positive impact on the EBITDA around mid-2017.

GLOBAL VISION OF THE MARKETS

There's been a global trend towards population settlement in the urban areas, which has led to an upsurge in population growth while the major cities continue to grow also. As a consequence, the need for quick and efficient urban transportation (such as the light rail) has also been growing to relevant numbers. Yet, we must point out that the need for quick urban transportation is strongly dependent on the economic impact of the last few years' crisis, as well as an economic dependency on oil.

In this area of business, Europe is still the leading region, even though we've witnessed a postponement of some relevant projects. Nonetheless, the recent increase on infrastructural projects for railways in countries such as France, Sweden and the United Kingdom, will boost significant growth for this sector.

OPERATIONAL PERFORMANCE

In 2016, Ireland, the United Kingdom, Denmark and Spain were the most relevant markets for the TRP BU. Efacec's investment in these markets, together with the low-grade activity as far as the light rail industry is concerned in Portugal, has originated a relevant export market, which amounted to 75% of the turnover.

LIGHT RAIL

Efacec's offer in the light rail market is the full package, covering energy solutions, communications, signaling and control centers.

The main facts that we'd like to point out for 2016, in this market, were the following:

NORWAY (BERGAN)

In August, we inaugurated the commercial service line for Light Rail which was part of Stage 3. Efacec was responsible for the full supply of the telecommunication and safety services, as well as the Operations Support Systems.

In November, we obtained the provisional acceptance of almost all the systems we've supplied, thus initiating a maintenance contract that will ensure customer assistance services for a period of 4 years.

IRELAND (DUBLIN'S LIGHT RAIL)

Efacec has continued on its trail of successful accomplishments that began in 2007, when we built the new Cross-City line, that will cross the Irish capital's historical and commercial centre.

In July, we successfully completed the in-factory testing (FAT) of the railway signaling system AEGIS, designed and developed by EFACEC alone, which will be, for the first time, installed for an international client.

The highlight was the in-factory testing, in December, of the operation support demonstration system, supplied by the largest railroad vehicle manufacturer (CRRC) to be installed in China, as well as the in-factory testing of operation support system and the public announcement of Constantine's light rail expansion (Algeria).

In August, EFACEC was actively present in an event with global repercussions: We inaugurated the 1st light rail line in the city of Rio de Janeiro, which includes an operation support and passanger information system (SAEIP) and welcomed the Olympic Games of 2016

CONVENTIONAL RAILWAY

In 2016, we've put into service 30 level crossings in Tunisia, we installed the first automated level crossing in Poland and we supplied Algeria with their first level crossings. Other projects that should be noted are:

DENMARK

Delivering the Holte substation for Banedanmark under a turnkey contract. It was the first EFACEC project in Denmark, and our performance in its execution was what brought us to its completion ensuring a high level of customer satisfaction.

SPAIN (CADIS)

We obtained important contractual capital gains by delivering the Energy contract (Traction and Catenary Substations), pertaining to new functionalities and up-scopes to the base-contract.

ALGERIA

Completion of two Traction Substations (SET), both for the end-client ANESRIF – Agence nationale d'études et de suivi de la réalisation des investissements ferroviaires.

Contract execution for SET of Tassala, in the Birtouta-Zeralda line, for

Yapi Merkezi (Turkey) and in the Thénia line – Tizi Ouzou, for Teixeira Duarte/Somafel.

Through these contracts, we also obtained up-scopes to the base-contract, namely connected to the SCADA energy system.

PORTUGAL

Acquiring a contract to build the SET of Vila Fria for IP – Infraestruturas de Portugal, in the Minho railway line, in a consortium with ABB – Alexandre Barbosa Borges, a construction company.

Because the TRP Unit is acknowledged, in Efacec, as a skilled center for telecommunication and communication infrastructures, other contracts were initiated or implemented during 2016, of which we point out:

- The begging of work for a communication network that supports the tele command for Águas do Ave (Portugal).
- Completed the optimisation services for telecommunication sites (GSM, UMTS, LTE) and building new sites for the telecommunication service provider NOS (Portugal).
- Supplying communication equipment for the Kongolote substation (Mozambique).
- Finishing the project for optic fiber installation in SONATRACH (Algeria).

We should also highlight the growing, positive contribution of the maintenance contracts that were in place in 2016, of which we point out the contracts with IP (Portugal), Dublin Light Rail (Ireland), CPCarga (Portugal), EDM (Mozambique), STCP, Carris and Metropolitano de Lisboa (Portugal) and the Tenerife Tramway (Spain), as well as the Bergen Light Rail in Bergen (Norway) that we've mentioned before.

2016 was also a year of R&D investment. We also witnessed the full implementation of the SMARTTRANSIT project, financed under the European program Portugal 2020, which aims to improve the TimeKeeper solution, implementing advanced regulation functions eco-driving, new diagnosis and performance tools, and also to develop and test new support solutions for the TETRA and LTE communications. We expect the completion of this project in 2017, with the effective demonstration of the new acquired functionalities.

Still in 2016, we applied for the following financed projects, which we expect will be approved, and should be implemented in 2017:

- Mobi2link: Expected completion in August 2018, P2020 project of the co-promotion kind, having as partners the FEUP - Faculdade de Engenharia da Universidade do Porto and also OPT, which aims to develop an innovative concept of mobility management multimodal platform.
- DIGIXSAFE: expected completion in 2019, IDT type P2020 project, aiming at developing an innovative solution for automated level crossing control systems, based on modular architectures of safety hardware and software, implementing a digital interface (to replace the current cable systems) with the train detection systems.
- 5G: expected completion in April of 2010, mobilising-type P2020 project, in partnership with the Technological and Scientific System (SCT) companies and entities, aiming at developing and testing a communication system as well as critical infrastructures distributed via public 5G networks.
- RailCapacity: expected completion in April 2020, Mobilising-type project, in partnership with SCT companies and entities, aiming at developing specification and also the autonomous units for the train links, with control-sensor interfaces, that monitor the wagons' condition (bogies) and also the goods (freezer-wagons, car transportation, containers, among others) as well as on-board computers with a communication module and eco-driving software, using safety communication protocols and information cloud servers.

FINANCIAL PERFORMANCE

ECONOMIC INDICATORS
(MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	14.0	**25.5**	11.5	82.1%
Backlog	50.9	**44.5**	-6.4	
Revenue	25.5	**29.9**	4.4	17.3%
Gross Margin	4.7	**6.2**	1.5	31.9%
Gross Margin %	18.4%	**20.7%**	2.3%	
EBITDA	1.4	**3.0**	1.6	114.3%
EBITDA/Revenue	5.5%	**10.1%**	4.6%	

In 2016, the TRP BU received orders in the amount of € 25 million, representing an 82% increase when compared to the previous year. The reason for this increase is the noted performance we've seen in markets where it has recently stood out stood out, essentially in the light rail area. We point out Ireland, with projects for the TII Transport Infrastructure, and Portugal with projects for the Oporto Subway Systems and Infrastructures of Portugal. SET of Vila Fria, and Algeria, with the light rail project of Constantine for Alstom Transport.

The value from registered orders allowed us to reduce the backlog erosion showed in the previous years. At the end of the fiscal year, this value represented about 1.5 years of revenue covering.

When compared to 2015, the revenue Relativee to 2016 show a positive performance, in terms of volume (+17%), as well as margin of percentage achieved (+2.33pp), as a result of executing the projects for the Northern European and Portuguese markets, in 2016.

In 2016, our EBITDA more than doubled when compared to the previous year, reflecting the positive impact of increased revenue and the steady fixed costs' reduction trend (-7%).

Dublin's subway, Ireland.

EXPECTATIONS FOR 2017

As to 2017, the investment plans for the metro-railway infrastructures in several European countries and in Africa show growing dynamic, opening new optimistic perspectives for growth. The TRP Unit will keep its focus and also its commercial effort in Northern Europe and also in the Maghreb, attempting to leverage new projects, based on its competitiveness and reputation.

Operation-wise, we foresee finishing the Cross-City project in a Ireland, with a scheduled handover in October. In Cadiz, we foresee the completion of a repowering project with yet another rectifier group and also building another High Voltage Power Substation that feeds the Traction systems. At a later date, Efacec will be competing for the maintenance contract of the Tranvía energy infrastructure.

In Algeria, we foresee building the second substation for ANESRIF (where Efacec's direct client is Teixeira Duarte/Somafel), in the Thénia line – Tizi Ouzou.

In Portugal, we'll start building the Vila Fria Substation, for IP, in the Minho line. Also in Portugal, we expect to begin new investment projects, both in the Infraestruturas de Portugal as well the Oporto Subway, where the Unit has always had a strong presence.

A GLANCE AT THE BUSINESS

VITORINO ROCHA

TRANSPORTATION BUSINESS UNIT

Considering the TRP unit's performance during 2016, as well as all the significant facts that occurred, what would you say is the greatest challenge?

The greatest challenge for the TRP Unit, at an operational level, is essentially connected to the delays we've experienced in different projects, such as the Traction Substation of Vila Fria and the communication network for the Águas do Ave company. As for the R&D, we faced a major challenge connected to the completion of DMS (Depot Management System), the testing stage of which started in October.

The Northern European market has been coming across as one of the most successful in the unit's portfolio. Why do you think this happens?

The current market performance in Northern Europe has, in its origin, two main factors that, combined with one another, contribute to the achievements we've conquered: i) the technical and innovative qualities of the engineering provided by Efacec and ii) our contract managers' active approach, focusing mainly on customer satisfaction.

Of all the expectations presented for 2017, which one would you say is the main goal for the business unit in 2017?

The TRP Unit's main goal has to do with acquiring a new market with a light rail project of the green field type, one where we can improve the acquisition and retention of new clients. The reason why we are going with this strategy is because of the success that we've experienced before, in other geographies. Despite the fact that investing in new markets involves intense selling efforts, lasting for several years, it also enables us to retain new clients through longer lasting contracts, as well as remaining in their territories for a longer period of time through new projects and also by hiring additional services.

DMS – KokstadDepot client: Bergen subway.

ELECTRIC MOBILITY

69
Number of Employees

€12.3M
Turnover

€1.1M
EBITDA[1]

VISION

Reinforcing their positioning as one of the main references world-wide in the charging stations' sector for electric vehicles

MISSION

To make electric vehicles a part of people's lives, offering a complete range of chargers for the private, public sector, fast and wireless

STRATEGY

- Relying on innovation and time-to-market and also on a broader portfolio of solutions
- To develop an on-going policy for partnerships, world-wide

WHICH GEOGRAPHIES?

Innovation and high performance reflect a product portfolio that is in continuous development, reaching the most demanding and emergent areas of the market.

* Due to the incorporation of the Feeding Systems, Inverters and Space in Efacec Energia, the official indicators that were shown are not comparable. Yet, to analyse the business's evolution, in order to perform a comparative analysis, and as far as orders, sales and gross margins are concerned, we've excluded these activities from 2015's numbers.

STRATEGIC PILLAR	
Technological Innovation	· Developing new charging solutions (e.g. induction charging) · Developing the service business
Operational excellence	· Increasing production efficiency through operational improvements · Optimising the production's industrialisation to keep up with the market's growth
Proactive comercial approach	· Diversifying our footprint with potential emerging markets · Broadening our partnership network to make it global
Focus on the client	· Establishing partnerships with clients to develop products and solutions
Talent Development	· Building a dual career model, one that instigates the professional development of technical tasks, as well as management tasks · Revising our performance assessment model, transversely incorporating into EFACE the functional families specificities versus functional groups · Revising our compensation and benefits model, promoting guidance to our strategic goals (e.g.: commercial proactivity) and tactical goals · Defining a talent management model that allows us to identify any employees with higher potential, guiding them into faster paced professional development tracks · Putting together a behavioural, functional and management training plan that enables us to prepare our employees to fulfill the 2020 EFACEC vision

The outlined strategy is materialised **11 initiatives**, which foreseeably will have a positive impact on the EBITDA around mid-2017.

GLOBAL VISION OF THE MARKETS

In 2016, the global market for chargers kept growing, meeting the growing offer of electric vehicles that important car manufacturers made available. The increasing autonomy in these vehicles and the demand for shorter charging times thrusted the growth of DC (Direct Current) solutions for more powerful fast chargers. The regions that showed greater growth continued to be, in 2016, North America, Asia Pacific and Western Europe, due to important factors like increased demand by end-users and also the governmental incentive programs for public charging networks as well as the investment on behalf of some utilities and car manufacturers.

OPERATIONAL PERFORMANCE

In 2016, Europe and the USA remained the main focus-markets for the Electric Mobility Unit (EEM). We also witnessed a broadened performance in high-potential markets, namely in Asia and Latin America, largely because of the partnerships we've established in those regions.

2016 was the best year ever for EEM, since we experienced pronounced growth in placed orders when compared to the previous year, consolidating its position in the market as a reference and being acknowledged by various players (car brands, charging networks' operators, users) for its ability to innovate and for its technology also. For us to show such results, we must recognise the role played by the European market, namely by Allego GmbH, Innogy SE, Garo AS and Porsche AG, the great contributors to the turnover we've achieved.

In 2016, we also introduced the high-power charge range to the market, and we fulfilled the first few contracts. We also started the first wireless charge project. In the future, we expect to continue to see a growing demand for charging equipment in countries where electric mobility is still taking the first steps, and also for high power charging systems in more mature markets.

The acknowledgement that we now receive from the market was fostered by EMM's active participation in certain associations that determine how this sector evolves (CHARIN, CHAdeMO, OCA, APVE, ABVE), by our presence in multiple events and fairs, of which we'd point out EVS in Montreal and eCarTec in Munich, as well as our cooperation with several brands of cars and omnibuses, which kept EMM up-to-date with the newest needs of this sector. For these reasons, EEM has consolidated its image as a reference player, with a strong capacity for innovation and holding a product portfolio of superior quality, in an expanding market where time to market is essential.

2016 is also marked by our transferring to the ASE BU the electric mobility non-core activities – Feeding Systems, Inverters and Space projects –, thus reinforcing its strategic focus on Electric Mobility.

We should also highlight the following events in 2016:

- Launching new products in the market, particularly the high tension and high power chargers designed for long range vehicles, and the beginning of wireless charge projects.
- Supplying fast chargers for the Fast-E Project, for our client Allego, the largest fast charge project in Europe financed by the European Union.
- Continuing the Tank&Rast project for our client Innogy, the largest fast charge project in Germany.
- Order for a set of chargers, for internal usage, to be installed in 7 sites in 3 countries, for Porsche, enabling EEM to install the first 350 kW chargers for light vehicles in the world.
- Entry into the Southeast Asian market, with our first orders from Macau and Hong Kong.
- Several development projects, in partnership with clients, of which we point out: Wireless charge with car manufacturers, opportunity chargers for omnibuses and ultra-fast chargers with charging operators.

FINANCIAL PERFORMANCE

ECONOMIC INDICATORS
(MILLIONS OF EUROS)

	2015*	2016	variation	%
Orders	16.5	**17.7**	1.2	7.3%
Backlog	9.6	**8.4**	-1.2	-12.5%
Revenue	15.2	**12.3**	-2.9	-19.1%
Gross Margin	3.4	**4.1**	0.7	20.6%
Gross Margin %	22.4%	**33.3%**	0.9%	
EBITDA	-0.1	**1.1**	1.2	1200.0%
EBITDA/Revenue	-0.7%	**8.9%**	9.6%	

Up until the end of 2016, EEM was involved in Feeding, Inverters and Space Systems, as well as the Electric Mobility business. These activities were transferred to the ASE BU in 2016.

The official indicators that were presented are, therefore, not comparable. Yet, to perform a business evolution analysis, and as far as orders, revenue and gross margins are concerned, we've excluded these activities from 2015, only to the effect of a comparative analysis:

ECONOMIC INDICATORS WITH ACTIVITIES SPLIT ADJUSTMENT OF ACTIVITIES (MILLIONS OF EUROS)

	2015	2016	variation	%
Orders	9.6	**17.7**	8.1	84.4%
Revenue	8.7	**12.3**	3.6	41.4%
Gross Margin	2.8	**4.1**	1.3	46.4%
Gross Margin %	32.2%	**33.3%**	1.1%	

As far as orders were concerned, EEM secured an increase of 84.4% compared to the previous year, which allowed for a favorable performance at the revenue level, as well as significant reinforcement of its backlog.

E-Mobility Consulting, Palma de Maiorca – client: BMW.

Although it is a developing business, EEM managed to reach favorable profitability levels, evidenced by the percentage of gross margin that was obtained, which surpassed the year to-date figure.

Although it's impossible to compare last year's EBITDA to this year's, 2016 showed excellent performance of EEM in this parameter, which corresponds to about 9% of total revenue, even considering the R&D costs that occurred this year, of about € 1 million.

EXPECTATIONS FOR 2017

2017 will certainly be another important year for EEM's growth and consolidation. In this sense, we expect the focus to be mainly on:

- Continuing to affirm our world-wide leadership.
- Beginning of the rollout for high-power fast chargers in Western Europe and the USA.
- Launching new charging solutions in the market, namely charging with energy storage, wireless charging, opportunity charging for omnibuses and new smart-charge functionalities.
- Keeping our focus on Western Europe and the USA, combining it with growth in other geographies, like Eastern Europe, Southeast Asia, Latin America and the Middle East.
- Increase in the production capacity expanding the manufacturing area.
- Continue to implement procedures supported by new solutions for information systems, aiming to increase productivity and quality.
- Developing lean projects for continued improvement.

Innogy, Augsburg, Germany – client: Tank&Rast.

A GLANCE AT THE BUSINESS

PEDRO SILVA

ELECTRIC MOBILITY BUSINESS UNIT

2016 was a year of significant increase in EEM's capacity for on-going production. What caused these results?

In the past few months, we've had construction work done on our factory and office buildings to adapt, when it's completed, to EMM's need of increasing its production capability to more than double of what it is right now, as well as overall improvements at other relevant levels. For instance, the offices will be detached from the factory buildings, the R&D labs, the end-of-line and product engineering tests will have increased capacity, the factory will solely and fully be attached to the EEM, the influx of materials will be improved, as well as all the layout

At the same time, we're implementing several projects that include new IT tools for project management and for releases, for procedure automation and production planning, as well as new methodologies, like a lean project and the implementation, for future certification, of the automobile sector's quality standard IATF 16949. All of these initiatives directly contribute to EEM's growth in the next few years.

How do you envision the evolution of charging power to 350kW for electric vehicles? In what way has EMM been adapting to this new market trend?

The announcement of electric cars with hundreds of kilometers of autonomy will bring about the possibility of driving for long distances on one single charge. For this to happen, while at the same time we ensure acceptable charging times, the charging power has to increase significantly, since the batteries' capacity will forcibly have to be greater. From EEM's perspective, the high-power chargers (above 150kW and up to 350kW) will be fundamental for the electric mobility's acceptance at a broader level, and should be present, most of all, on highways. In turn, the current 50kW chargers should increase in numbers, especially in urban areas and on secondary roads. With this in mind, EEM has been relying on a timely retainement of this technology, through our involvement in major projects, guaranteeing its availability as soon as it becomes necessary.

In which markets and/or segments do you think you'll grow most significantly in the next few years?

We envision that the electric vehicle-charging sector will experience an intense growth in practically all the segments: fast charge and super-fast charge, private charge at a lower power for refilling of the spent capacity on an average day, public transportation charges particularly plug in, but also the opportunity charge, and a segment that should come about soon which is the wireless charge.

Geography-wise, Europe and the USA should continue to be the base for our business. Yet, we should never neglect the relevance of other markets that are, even today, becoming critical for our sustained future growth.

FINANCIAL PERFORMANCE

The objective of this chapter is to cover the main aspects that had a financial impact on Efacec during 2016, namely with regard to the Group's activity in the year under review, the evolution of its financial situation and the financing policy adopted.
The indicators used are based on the reporting to the Management Bodies, which regularly monitor Efacec's activity. The concepts used in this context therefore differ from the accounting criteria followed in the financial statements, and so in order to better understand the figures presented in this analysis, compared to the figures presented in the Income Statement and Financial Statement, at the end of the chapter, we have included a reconciliation of the main indicators presented: Revenue, EBITDA, Amortisations and Profit Before Tax.

ANALYSIS OF THE ACTIVITY IN 2016

During the 2016 financial year, Efacec achieved a **turnover** of 432 million Euros, with international markets representing a significant portion of the Group's businesses, with a weight of 76% in revenue and 78% in orders received during the period. The Portuguese market remained stable, while there was an increase in the position in key markets for the Group, especially in Western Europe (United Kingdom, Ireland, Germany, Denmark and France), Angola, Argentina and Saudi Arabia, so that the policy for diversification and investment in new markets was thus achieved.

	2015	**2016**	Δ	Δ%
Revenue	416.0	**431.5**	15.5	4%
Direct Costs	-353.0	-351.5	1.5	0%
Gross Margin	63.0	**80.0**	17.0	27%
Indirect costs	-47.9	-50.1	-2.2	5%
Other income(a)	12.8	5.0	-7.8	-61%
Management EBITDA(1)	27.8	**34.9**	7.1	25%

a) Essentially includes favourable net foreign exchange differences, which in 2015 totalled 11.0 million Euros compared to 3.9 million Euros in 2016.

The **management EBITDA**, used to gauge the performance of the Group and each of the Business Units, is obtained by deducting the direct and indirect costs from the revenue:

- **Direct costs** amalgamate all the cost items allocated to projects or manufactured products (materials, direct labour, sub-contracted services, general charges and expenses directly related to sales). Deducting the direct costs from the revenue determines the gross margin, whose average value in 2016 stood at 18.5%, compared to the 15.1% recorded in 2015.

- **Indirect costs** essentially include structural costs, less the amounts allocated to projects.

In addition, and besides the deduction of indirect costs from the gross margin, in order to calculate the management EBITDA, the effect of other operating income is also taken into account, namely the foreign exchange differences and R&D costs.

Management EBITDA, contrary to statutory EBITDA, does not include the non-recurring items (*see section on the reconciliation of the main indicators, at the end of the chapter*).

In 2016, the Group's management EBITDA amounted to 34.9 million Euros, representing an EBITDA margin of 8.1% of turnover, against 7% the previous year. The major contribution towards this growth was provided by the Transformers, Switchgear and Energy Units.

EBITDA increased by 25% compared to the previous year, as a result of the increase in revenue and the improvement to the margin achieved during the year. Excluding the effect of favourable exchange rate differences (11 million in 2015 versus 3.9 million in 2016).

	2015	**2016**	Δ	Δ%
Management EBITDA	27.8	**34.9**	7.1	25%
Amortisations	-6.0	-6.1	-0.1	2%
Provisions	-10.7	-2.0	8.7	-81%
Net Financial Costs (a)	-10.9	-7.1	3.8	-35%
Management Operating EBT	0.2	**19.7**	19.5	n.a.
Management Fees	-10.7	-	n.a.	n.a.
Costs with Terminations of contracts	-2.1	-15.8	-13.7	n.a.
Non-operating income	-3.2	4.0	7.2	n.a.
Management EBT	-15.8	**8.0**	23.8	n.a.
Taxes	0.5	-0.1	-0.6	-111%
Consolidation adjustments (b)	-6.3	-3.5	2.8	-44%
Consolidated net profito	-20.5	**4.3**	24.8	n.a.

a) The Net Financial Costs in 2016 include an amount of 0.5 million euros related to the portion of amortised cost recognised during the year.
b) This item includes the amortisations of the PPA and the earnings from operations being discontinued (See notes to the Consolidated Financial Statements).

The Group's **management EBT** increased from -15.8 million Euros in 2015 to 8.0 million Euros in 2016, thanks to an improvement to the EBITDA and a better financial performance (by reducing bank debts and having more favourable interest rates), despite the increase in the costs with terminations of contracts by 13.7 million Euros, partially offset by eliminating the management fees in 2016, which represented a cost of 10.7 million Euros in 2015.

The management EBT generated in 2016, of 8.0 million Euros, made it possible to attain a positive **net profit** of 4.3 million, taking into account the effect of taxes (0.1 million Euros) and consolidation adjustments, essentially related to amortisations of 3 million Euros, arising from assets valued using the Purchase Price Allocation method on the transfer of financial shareholdings made when EPS was set up.

At the end of 2016, the Group's **consolidated assets** stood at 638.2 million Euros and **equity** at 309.1 million Euros, the **financial autonomy** ratio having reached 48%.

	2015	**2016**	Δ	Δ%
Assets	692.6	**638.2**	-54.4	-8%
main items and variations:				
Tangible and intangible	127.2	122.6	-4.6	-4%
Goodwill	121.3	120.2	-1.1	-1%
Customers	201.3	166.8	-34.4	-17%
Income gains	70.0	72.6	2.6	4%
Inventories	51.6	36.3	-15.4	-30%
Deferred tax assets	54.8	57.1	2.3	4%
Liabilities	384.0	**329.1**	-54.9	-14%
main items and variations:				
Financial debt	85.6	73.4	-12.1	-14%
Suppliers	79.7	85.8	6.1	8%
Deferred Income	125.9	79.2	-46.7	-37%
Equity	308.7	**309.1**	0.5	0%

The table above highlights the most relevant items on the balance sheet. **Customer debt** was significantly reduced from 201.3 to 166.8 million Euros in 2016, largely due to the collection efforts made throughout the year under review. **Inventories** were also reduced by 30%, through the initiatives in progress for optimising stock management.

As a result of the sale of the assets held by the subsidiary PTI in the United States, in 2014 Efacec Energia recorded the corresponding tax effect of 44 million Euros, which represents the majority of the amount recorded in the item deferred tax assets. In 2016, PTI was dissolved, the loss already recognised in previous years coming into effect, so that it was possible to start using the respective tax credit.

As far as liabilities are concerned, the main variation occurred in the item **deferred income** which dropped from 125.9 to 79.2 million Euros, essentially through carrying out various projects throughout 2016, in the contracting Business Units, namely the Energy and Environment and Manufacturing units, which in previous years, had prior invoicing compared to the extent to which the projects were finished.

	2015	2016	Δ
Equity at the start of the year	234.6	**308.7**	74.1
Increase in capital	60.0		-60.0
Supplementary capital contributions	35.9		-35.9
Net profit	-20.5	4.3	24.8
Other variations	-1.3	-3.8	-2.5
Equity at the end of the year	308.7	**309.1**	0.4

Equity had a negative influence from the evolution of foreign exchange in some countries where the Group holds important assets, namely in Angola and Mozambique, which explain the item "Other variations, related to foreign exchange conversion adjustments recorded during the year.

With regard to financing, the **net debt** recorded in the Financial Statement at 31 December 2016 and 31 December 2015 was as follows:

	2015	2016	Δ	Δ%
Bank debt	88.0	75.4	-12.7	-14%
Cash and cash equivalents (a)	-38.1	-29.0	9.1	-24%
Net financial debt	49.9	**46.4**	-3.6	-7%
Amortised cost	-2.5	-2.0	0.5	-21%
Net debt	47.5	**44.4**	-3.1	-7%

a) In 2016, this item includes an amount of 3.1 million Euros regarding Treasury Bonds (TB) from the Popular Republic of Angola which were in the portfolio at the end of the year.

At the end of the year, the Group's Financial Statement showed a net financial debt of 46.4 million Euros, which represented a reduction of 3.6 million Euros compared to 2015.

	2015	2016	Δ	Δ%
Initial net financial debt	160.3	**49.9**	-110.4	-69%
Management EBITDA (1)	27.8	34.9	7.1	25%
Management fees	-10.7	0.0	10.7	n.a.
Costs with terminations of contracts	-2.1	-15.8	-13.7	650%
Other expenses (2)	-5.7	-1.2	4.5	-78%
Capex (3)	-5.4	-4.5	0.9	-18%
Variation in Working Capital	19.8	5.6	-14.2	-72%
Operating Cash Flow	23.7	**19.0**	-4.7	-20%
Capital increase	60.0	0.0	-60.0	n.a.
Supplementary capital contributions	35.9	0.0	-35.9	n.a.
Financial charges paid(4)	-7.6	-10.6	-3.0	39%
Other movements(5)	-1.7	-4.8	-3.1	184%
Reduction in Net Debt	110.3	3.6	-106.7	-97%
Final net Financial Debt	49.9	**46.4**	-3.5	-7%

Notes:

(1) Management EBITDA	**2015** The 2015 value has been re-expressed, in accordance with a decision taken in 2016 to include the costs with R&D projects when calculating the value of EBITDA **2016**
(2) Other expenses	Other expenses not classified in the management EBITDA, including expenses with consultants, corporate projects, non-operating expenses and income, and with non-core activities
(3) CAPEX (Tangible and intangible assets)	5.0 Acquisition of assets -0.3 Subsidies -0.1 Conversion differences **4.5**
(4) Financial years charges paid	-6.5 2016 Financial charges -4.1 Interest paid in 2016 related to the previous **-10.6**
(5) Other movements	Mainly debt from non-core activities and net foreign exchange variation of the net debt

The Group's consolidated **working capital** had a positive trend with a variation of 5.6 million Euros in 2016. Working capital essentially includes the items inventories, customers, income gains, suppliers and deferred income. The contribution towards the positive variation recorded was essentially through the collection efforts made during the year under review and stricter control of stocks and production in progress.

The maturity of the medium and long-term bank debts extends until 2022 and the average cost of the Group's debt, in 2016, was 4.2%. The net financial debt/EBITDA ratio, calculated based on the statutory accounts, was 2.0.

2^{nd} Sales Convention, Porto Business School, Portugal.

EFACEC'S FINANCING POLICY

A significant portion of Efacec's debt is contained within a financing contract entered into with a banking syndicate. In October 2015, at the same time as the change to the shareholder structure took place, the above-mentioned contract was re-negotiated, where a significant part of the outstanding capital was repaid, time limits extended and interest rate conditions improved, and it can now be broken down as follows:

- A 60 million Euro loan, which will start to be repaid in October 2018 and will end in October 2022, and

- A 30 million Euro credit line, which can be used and amortised depending on the Group's needs, which will mature in October 2020.

Besides this syndicated contract, Efacec also has credit lines with other banks in Portugal and with banks in some countries where it is locally present, namely, Angola, Algeria, Spain and Mozambique.

In 2016, Efacec's financing policy was approved, which defined that the Group's medium and long-term debt, as well as the main part of the short-term debt should be concentrated in the companies in Portugal, the companies abroad being able to maintain lines supporting their current treasury needs.

Already in line with this policy, throughout 2016, Efacec followed a principal for reinforcing its proximity to the Financial System, both in Portugal and abroad.

Also throughout 2016, we endeavoured to optimise cash and cash equivalents and the use of available credit lines, aiming to reduce the Group's financing costs.

For 2017, Efacec's plan is to continue with the policy for reinforcing its proximity with the Financial System, which began in 2016, and to start the refinancing process of the part of the syndicated financing which matures in the 4^{th} quarter of 2018.

CONCILIATION OF THE MANAGEMENT INDICATORS WITH THE STATUTORY FINANCIAL STATEMENTS

Every month, Efacec analyses its performance based on the management accounts, from a dual perspective: i) organisation by Business Unit and ii) functional results formation. The economic and financial analysis of the consolidated accounts performed herein is also based on that dual perspective, and should therefore be analysed in conjunction with the consolidated income statement and the consolidated financial statement.

In the context of conciliating these management values with the statutory values, it is important to mention that some non-core activities, whose evolution is not shown in Efacec's regular operational management, are still part of the Group. These activities refer to specific projects that are being closed, or to discontinued companies which, due to formal or legal issues, could not be separated from the companies that set them up, and continue to be part of Efacec's consolidation perimeter. Despite being of little significance, they are part of the difference between the statutory financial statements and the management statements, and influence the Group's annual earnings. The impacts of these non-core activities, however, tend to be cancelled out in the next financial years.

Comments, justifications and respective values that reconcile the management accounts with the statutory accounts are shown below.

Indicador	Management accounts	Statutory accounts	Difference	Justification
Revenue	431.5	438.0	6.5	The Efacec Power Solutions Group includes some non-core activities with a marginal contribution, and which tend to be totally discontinued. In 2016, they represented around 6.5 million Euros of revenue
EBITDA	34.9	23.2	-11.7	The management EBITDA shows the gains and related costs with operating activities in the different business segments. The gains and costs of a non-operational nature or those related to other functions are shown after EBITDA.
			-15.8	Costs with terminations of contracts
			0.9	Non-core activities
			1.6	Net impact of fire with premises in Maia
			1.9	Debits to entities of the MGI Capital Group for services provided and Ring Fencing
			-0.4	Other non-operating profits
Amortisations	-6.4	-9.0	-2.7	The difference seen mainly results from identifying and revaluing assets when acquiring the subsidiaries of Efacec Power Solutions
			-3.0	Annual amortisation of the amounts allocated to tangible and intangible assets (equipment, contracts and brand) using Purchase Price Allocation as a result of acquiring companies within the scope of the process of setting up Efacec Power Solutions
			0.3	Recognition of investment subsidies (deduction from depreciation)
EBT vs. Profit Before Taxes	7.9	5.0	-2.8	The difference is the result of amortisations and depreciation related to the acquisition of the subsidiaries of Efacec Power Solutions
			-3.0	Annual amortisation of the amounts allocated to tangible and intangible assets (equipment, contracts and brand) using Purchase Price Allocation as a result of acquiring companies within the scope of the process of setting up Efacec Power Solutions
			0.1	Non-core activities

To complement the information in the table above, the main management and statutory items for the year 2015 are also reconciled.

Indicador	Management accounts	Statutory accounts	Difference	Justification
Revenue	416.0	422.9	6.9	The EPS Group includes some non-core activities, with a marginal contribution and which tend to be totally discontinued. In 2015, they represented around 7 M€ of revenue
EBITDA	27.8	11.8	-16.0	-2.1 M€ in contract terminations; -0.7 M€ of non-core activities; -10.7 M€ in management fees; -1.4 M€ in non-operating profits and others; -0.8 M€ in profits attributed to projects; -0.3 M€ in recognition of investment subsidies
Amortisations	-6.0	-10.6	-4.6	-4.6 M€ Annual amortisation of the amounts allocated to tangible and intangible assets (equipment, contracts and brand) using Purchase Price Allocation as a result of acquiring companies within the scope of the process of setting up Efacec Power Solutions (EPS)
EBT vs. Profit Before Taxes	-15.8	-20.4	-4.6	-4.6 M€ in annual amortisation of the amounts allocated to tangible and intangible assets (equipment, contracts and brand), using Purchase Price Allocation as a result of acquiring companies within the scope of the process for setting up Efacec Power Solutions (EPS)

In statutory terms, and similar to the analysis performed on the management figures, **revenue** recorded a 15.1 M€ increase compared to 2015.

Statutory EBITDA grew by 11.4 M€ in 2016, mostly due to the improved results of the operating activity, leading to an increase in Management EBITDA. Other relevant impacts to be considered in this item in 2016 concern the non-recurring cost related to contract terminations (to the value of -15.8 M€), partially offset by deleting the cost regarding management fees, (to the value of -10.7 M€ in 2015).

Statutory EBT grew by 25.4 M€, reaching a positive value of 5 M€ in 2016.

EPS INDIVIDUAL ACCOUNTS AND PROPOSED DISTRIBUTION OF EARNINGS

Efacec Power Solutions (EPS) is a Holding Company, which directly or indirectly owns the financial investments of the companies in the EPS Group.

EPS' financial statements are prepared taking into account the historic cost convention, except the financial assets and financial liabilities, and land, which are all recorded at fair value.

The earnings generated by EPS arise from debits made to its subsidiaries and dividends paid by its associate companies, in accordance with the income statement and financial statement presented herein.

M€

	2016	2015
Revenue (a)	**5.9**	0
SES	-2.3	-0.2
Staff costs	-2.0	-0.6
Other net operating income (b)	1.6	0.0
Operating profit	**3.2**	-0.7
Net financial costs	-2.0	-6.2
Profit before tax	**1.2**	-6.9
Taxes	-0.5	0.4
Net profit	**0.7**	-6.6

a) Sum related to the provision of management services
b) Sum related to the loan of space to the subsidiaries.

Although it has been incorporated since 2014, Efacec Power Solution only effectively started business as from 23rd October 2015, the date when Winterfell took a majority shareholding in the company, having made no debits in that year for management services provided to the subsidiaries.

M€

	2016	2015
Assets	**406.8**	401.4
main items and variations:		
Financial Investments	373.3	371.7
Loans to Related Entities	25.1	27.2
Liabilities	**83.1**	78.4
main items and variations:		
Borrowings from Related Entities	73.6	75.2
Equity	**323.7**	323.0
Capital	285.9	285.9
Issue Premiums	8.0	8.0
Additional Paid-In Capital	35.9	35.9
Reserves and accrued earnings	-6.1	-6.8

PROPOSED DISTRIBUTION OF EARNINGS

Considering that in the year ended 31 December 2016, the net profit ascertained for the year was € 706,758 (seven hundred and six thousand seven hundred and fifty eight euros), the Board of Directors proposes, within the terms of the applicable legal and statutory provisions, that the above-mentioned positive net profit be fully used to cover negative retained earnings.

A GLANCE AT THE FINANCIAL PERFORMANCE

FRANCISCO NUNES

CFO

In terms of investment plans, what initiatives are foreseen for the coming years?

Efacec has an investment plan for the next 4 years, which aims to address the needs of the various Business Units and to modernise its manufacturing facilities in Arroteia and in Maia, in order to ensure the implementation of lean processes throughout the entire organisation.

What other initiatives with a financial impact are being worked on by the management team?

Within the scope of Efacec's transformation plan, defined by the Management team with the support of the shareholders, at the moment we have a significant number of initiatives in progress, running across the organisation, whose objective is to modernise the Group, making it more streamlined and efficient. Among them, I would highlight four which have a more direct and visible impact in financial terms.

Continuation of the initiative we call Efalight, which aims to identify measures for reducing structural costs with supplies and external services common throughout the Group.

The insourcing project aims to reduce costs with the work factor by reducing the amount of hiring through outsourcing, seeking to guarantee as much as possible the current levels of employment at Efacec.

The centralisation of the sourcing processes, resulting in synergies between the various Business Units and the corresponding impact on cost reductions.

Finally, it is important to mention the optimisation of working capital by reviewing all the administrative processes linked to Invoicing, Collection and Stock Management.

How do you view efacec's medium-term financing needs?

Efacec's debt is appropriately structured, taking into account the Group's current liquidity and capacity to generate cash flow, and so no immediate needs are foreseen.

However, we have the medium-term objective of reaching greater diversification in our means of financing, not only in Portugal but also abroad, which we consider to be essential for a company like Efacec, with businesses in numerous countries and the ambition to continue growing in foreign markets, and so an analysis of possible new financing operations will have to be performed in light of that reality.

What policy for distributing dividends is currently in force at Efacec?

It is the Board of Efacec's objective to remunerate its shareholders by distributing dividends in the coming years. However, for that to happen, the Group must ensure that it consistently presents positive net results and that it permanently maintains a Net Financial Debt/ EBITDA ratio of 2 or less.

VALUE CREATION

Efacec makes the commitment to all its stakeholders, spread over 90 countries, to base all its decisions and actions on strong corporate values.
Sustainability for a company like Efacec can only be achieved through joint action by all the company's stakeholders, from shareholders to customers, from suppliers to all different kinds of partners, from civil society to every employee.

CEO and Business Developer of GE Angola on a visit to Efacec, Arroteia, Portugal.

Customers

People

Technology Partners

Commercial Partners

Suppliers

Financial Institutions

Civil Society

CUSTOMERS

MISSION/PRIORITIES

One of Efacec 2020's five strategic pillars is customer focus. The goal is to establish solid partnerships and realign the Group's processes and staff to meet the commitments undertaken on time and to our customers' satisfaction.

Efacec has therefore made efforts to improve the service it offers customers at all levels involved in customer satisfaction. The company has focused above all on anticipating needs and improving available solutions.

VALUE CREATED

Throughout 2016, Efacec designed and began to implement a range of initiatives to improve customer satisfaction in line with the transformation project's strategic objectives, which include:

- Improved throughput time;
- Adaptation of products to customer requirements;
- Faster product certification;
- Faster R&D projects and approvals;
- Better agreed SLAs;
- Better deadline compliance (on-time delivery).

Customer satisfaction (meeting needs and expectations) is assessed by carrying out satisfaction questionnaires and also through letters of recommendation, awards, complaints and qualification audits.

FACTS OF THE YEAR

- In 2016, 651 customer satisfaction questionnaires were sent, with a response rate of 30%.
- Average overall customer satisfaction was 77%:
  - 95% of those surveyed would consider Efacec for future work;
  - 71% of those surveyed believe that Efacec met expectations in the work done.
- Additionally, 15 letters of recommendation were received.

Presentation of the overhead distribution system recloser to EDP.

PEOPLE

MISSION/PRIORITIES

Efacec's mission is to create a culture of learning and ongoing development for people in line with the strategy defined in Efacec 2020. The main priorities and commitments for human resource management are:

- Managers' support in the operational management of their teams, encouraging their recognition and development;
- Furthering employees' skills through excellent, certified training courses that add to their personal and professional development;
- Creating professional growth opportunities within the company for employees that enable management of knowledge and talent within the organization;
- Developing global human resource management policies that are suitable for the contexts of the different locations where it works;
- Maintaining a positive, diverse and flexible organizational climate that encourages a feeling of belonging and employees' commitment to the organization;
- Work-life balance, ensuring a culture of well-being and stability between work and family life for all employees;
- Respect and compliance with the code of ethics at all levels of the organization.

VALUE CREATED

At Efacec, there is a deep-held belief that employees are the people most responsible for value creation at the company. For this to happen sustainably, a talent attraction, development and management strategy must be defined and developed, offering staff a challenging environment and a culture that encourages recognition, development and retention of its human resources. For this reason, Efacec has a range of initiatives that aim to boost value creation for staff:

- A close relationship between human resource management, managers and employees in Efacec's different areas, by way of the HR Business Partner model;
- Certification by DGERT, the Portuguese Directorate-General for Employment and Labour Relations, as a training body for the following areas: personal development, foreign languages and literatures, computer sciences, electricity and energy, occupational health and safety;
- In-house mobility programme (EfaMove), consisting of internal recruitment opportunities for employees;
- Internal social support service that monitors and provides guidance to employees who are in social vulnerability situations;
- Staff associations (ADEFACEC and CCDEL) which focus on well-being, socio-cultural development and better use of free time for employees and their families.

FACTS OF THE YEAR

- At the end of 2016, Efacec had a total of 2,330 employees, distributed over 11 different regions around the world.
- Efacec gave its staff 23,054 hours of training in different fields, with an overall satisfaction rate of 88%.
- The company began a process to reorganize its human resource management and its responsibilities by implementing the following areas of responsibility:
  - Performance and development management
  - Talent management
  - HR Business Partners
  - HR monitoring and reporting
  - Labour relations
  - Administrative management

TECHNOLOGY PARTNERS

MISSION/PRIORITIES

Current trends in the sector show that sustained investment R&D is critical for organizations to succeed. Efacec invests in establishing stable technology partnerships in order to continuously improve the services it offers.

These technology partnerships aim to:

- Ensure complementarity in fields of knowledge that are necessary to Efacec's activity;
- Encourage more diversified technology skills;
- Obtain specialized support for the development of R&D projects, at the same time reducing inherent technological risks;
- Increase technological capacity to deliver;
- Increase the capacity to stand out in the markets/ sectors in which Efacec operates;
- Boost new business areas that have rapid growth.

VALUE CREATED

Through partnerships established with R&D and similar technology bodies, Efacec intends to further strengthen its journey to stand out in the process of creating products, systems and new solutions, promoting an increase in existing innovation levels and a resulting increase in competitiveness.

In the relationships it establishes, Efacec has favoured the transfer of technology and the internalization of partners' expertise.

Relationships of this type have enabled Efacec to achieve shorter development times for R&D projects and therefore improve the time to market for its products and systems.

It has also created conditions for consortia to be formed and for participation in large-scale R&D projects.

FACTS OF THE YEAR

- Achievement of the first international benchmark for the ultra-fast electric vehicle charger;
- Entry into service of the new TRAMKEEPER solution for optimized operational management for light rail depots.
- Creation of new business activity focused on energy storage solutions for distribution networks.
- Strong commitment to developing a new line of products for digital substations.
- Provision of the first functional models with a view to creating digital twins for power transformers.
- Broadening of Efacec's national and international ecosystem to more than 50 active TR&D – Technology Research and Development partnerships, including technology-based start-ups.
- More than 40 R&D and Innovation projects underway.

COMMERCIAL PARTNERS

MISSION/PRIORITIES

Efacec's business model, based on exporting to international markets, is anchored in developing solid, long-lasting relationships with local partners in most of the 70 countries where it has its global presence.
Local partnerships guarantee close monitoring and rapid response to customer needs as well as allowing Efacec to get to know about the market and its players more quickly.

VALUE CREATED

Effective management of local partners has allowed Efacec and its partners to develop sustainable strategic partnerships.
Local commercial partners play an important role in identifying new business opportunities and establishing relationships with multiple market segments that would otherwise be difficult for Efacec to access.
Efacec, with its huge portfolio, gives its local partners access to a benchmark world player.

FACTS OF THE YEAR

- Development of new local partnerships: Algeria (AMT), Kenya (ASE), Qatar (AMT) and Iraq (TFR).
- A local partnership agreement was concluded with OHI for the Oman market.
- The scope of the commercial partnership with the Moroccan company Energy Transfo was broadened for the AMT and SRV business units.
- First order with a local partner in Qatar, leading to the largest order of the year for the AMT business unit.

SUPPLIERS

MISSION/PRIORITIES

Suppliers are essential partners in the value chain of Efacec's business because they help provide materials, equipment and services with cutting edge technology and prevent risks connected to their quality and reliability.
Ethics, trust and social, environmental and corporate responsibility are fundamental factors that guide the relationship with partners and drive the conservation of stable, long-lasting relationships and a resulting improvement in Efacec's competitiveness. For that reason, suppliers are encouraged to implement continuous development policies and innovative solutions every day, creating a win-win relationship for before parties.

VALUE CREATED

At Efacec, there is a clear awareness of today's challenges, which leads to an emphasis on creativity, commitment and innovation from suppliers so that success can be achieved. That is why, with better communication with suppliers in mind, the EFASST supplier relationship management application was developed, which streamlines the process of forming and strengthening strategic alliances through an exchange of information that is simple, quick, safe and comprehensive. EFASST is a tool that has been 100% developed by Efacac with the aim of managing all the purchasing processes. It works for staff within the company and for suppliers outside it. Using this platform, suppliers can:

- Register on a single database that can be accessed by all Efacec companies in Portugal and abroad;
- Quickly and easily view all the ongoing consultation processes and related orders;
- Access an electronic negotiation platform.

Transporting two shell type GSU transformers to be installed at the McGuire nuclear power station – customer: DUKE Energy.

EFASST DATA 2016

1,281	9,237	10,841
internal users	suppliers	quote requests/year

FACTS OF THE YEAR

- Centralized purchasing in the Supply Chain Department, enabling negotiation synergies and strengthening competitive partnerships. This centralization has made it possible to use the same suppliers for different markets, broadening the range of their supplies.
- New dedicated webpage exclusively for suppliers integrated into Efacec's website.
- Partnership with QualCom to develop components for electric chargers, as part of a contract with Porsche.
- Work with LASO for the specification and successful execution of transport for high-power three-phase transformers made in Portugal to the USA as part of a contract with DUKE Energy.

FINANCIAL INSTITUTIONS

MISSION/PRIORITIES

By implementing Efacec 2020, Efacec aims to create the foundations to guarantee constant cash flow balance by optimizing cost structures and focusing on efficiency in processes.
Additionally, Efacec has partnerships with the financial institutions it works with, emphasizing clear, transparent communication of the most important aspects of its activity.

VALUE CREATED

Efacec organizes biannual meetings with all its financial partners to present its economic and financial performance and the latest developments in its business.
Efacec has a credit insurance policy that guarantees greater security in its sales to customers. Efacec has a liquidity position that ensures it can cover its refinancing needs for the next two years.

FACTS OF THE YEAR

- In 2016, there was a 27% increase in the gross margin and a 3.4pp improvement in the gross margin/revenue indicator, which reflects the improvement in the business' profitability.
- There was also a reduction in net debt by 3.6 million euros. This, together with the growth in EBITDA, made it possible to meet the goal for the net debt to EBITDA ratio of less than or equal to 2.
- Working together with some financial institutions, the foundations were laid to implement supplier payment management systems, and this is expected to be completed over the course of 2017.

Off-grid solar power system for indigenous communities in the Atacama Desert.

CIVIL SOCIETY

MISSION/PRIORITIES

Efacec endeavours to support important social, cultural and technological initiatives in the communities where it operates. In the decision-making process, the company considers the potential and soundness of the initiatives analysed, as well as the credibility and closeness of the institutions involved and the possibility of creating solid relationships with the beneficiary institutions.

Efacec's priority is to bring a new image to existing citizenship programmes, particularly regarding corporate volunteering and solidarity.

Another of its priorities is increasing the number of employees involved in corporate volunteering initiatives and promoting and guaranteeing continuous donations of goods by the company and its employees.

VALUE CREATED

Citizenship initiatives improve Efacec's reputation among all stakeholders, particularly partners and customers.

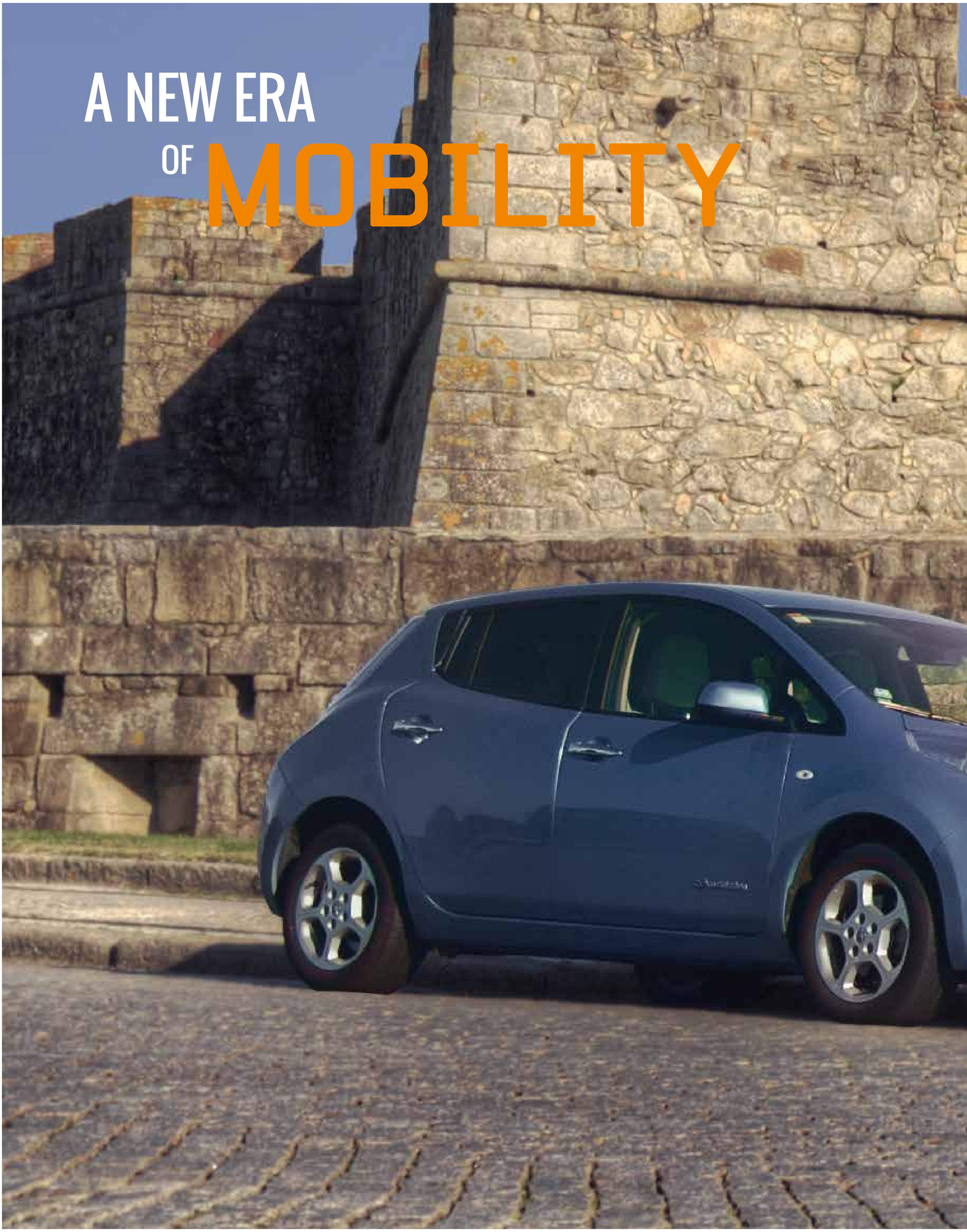
In certain proposals, contracts and qualification processes, Efacec interacts with customers that value concrete evidence of the citizenship actions carried out. In other situations, customers and partners have specific demands regarding standards and/or regulations that extend throughout the value chains.

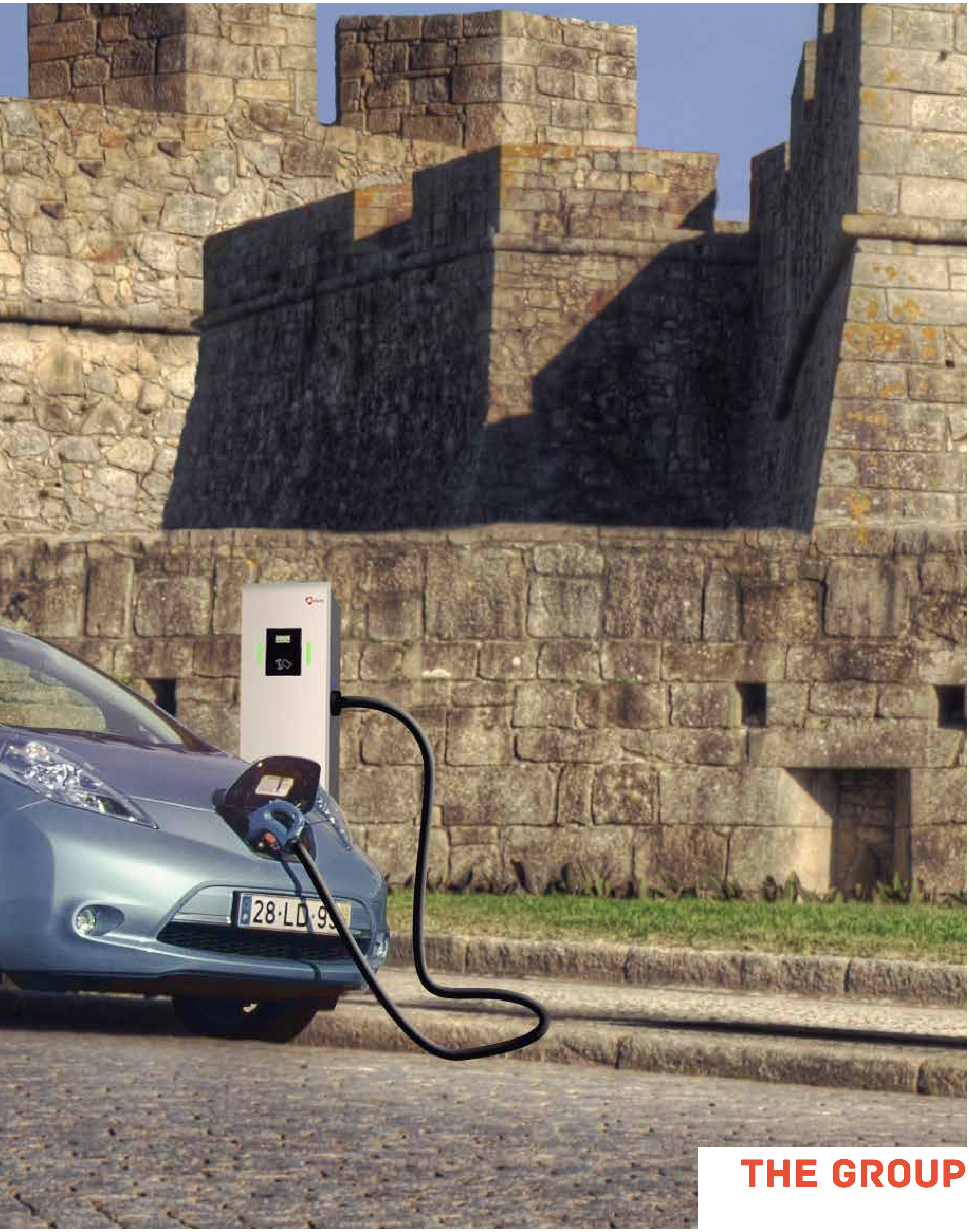
Efacec focuses on developing close relationships with associations, since they contribute to employees' development, to increasing the Group's skills and to strengthening the networks involved in the business.

FACTS OF THE YEAR

- Efacec became a member of INEGI – Institute of Science and Innovation in Mechanical and Industrial Engineering, the Conseil de Cooperation Economique, the Porto Business School and the Luso-French Chamber of Commerce.
- The main social responsibility project is the installation of lighting, refrigeration and freezing systems run by off-grid solar power generation in Ayquina, Cupo, Toconce and Caspana, Andean settlements located in the Atacama Desert in Chile, with the support of local municipalities and indigenous communities.
- Efacec was also a case study at Innovation Now! 2016, organized by BEST Aveiro, an annual symposium for sharing ideas, knowledge and experiences among practitioners and students who work with innovation in their day-to-day lives.

A NEW ERA OF MOBILITY





THE GROUP

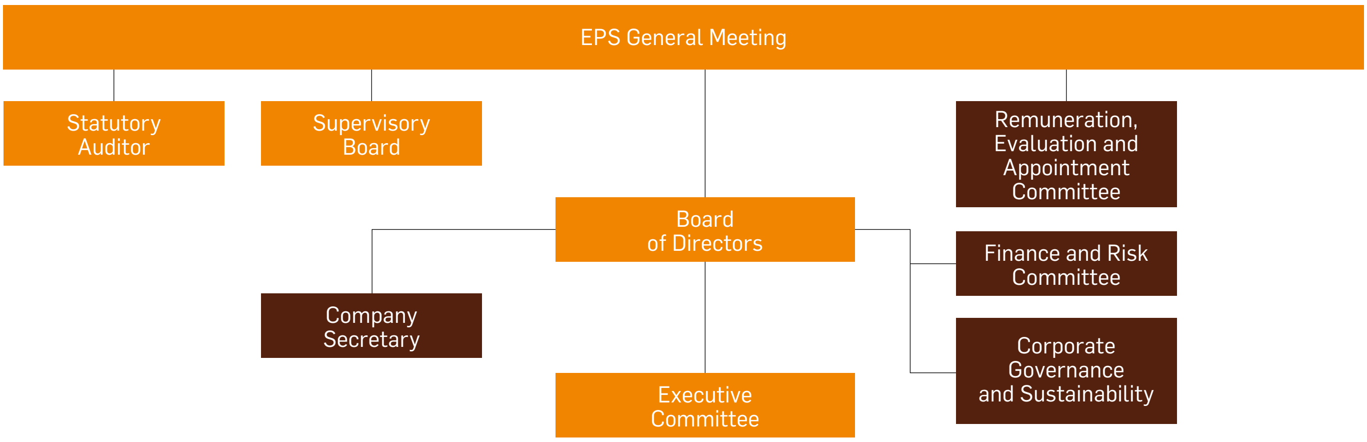
GOVERNANCE MODEL

The corporate governance model adopted by Efacec is in line with best practices in Portugal and the world regarding corporate governance. It is guided by a set of principles that strive for transparency, proper implementation of the corporate strategy and value creation. Efacec has adopted the governance model established in Article 278(a) of the Portuguese Commercial Companies Code (CSC) called the classic or one-tier model.

GENERAL PRINCIPLES OF THE MODEL

Under the terms of Article 278(1)(a) and (3) and Article 413(1)(b) of the CSC and Article 10 of the EPS Statutes, Efacec's governing bodies are: the General Meeting (GM), the Board of Directors (BD), the Supervisory Board (SB) and the Statutory Auditor (SA).

EPS – CORPORATE GOVERNANCE MODEL



This model separates the powers of the different governing bodies, particularly the powers of the Board of Directors – which cover functions related to defining strategic direction, monitoring management and supervision and control – and the powers of the Executive Committee – which encompass the day-to-day running of the Group and the different business units and company departments.

The functions of the Board of Directors are supported by two specialized committees: the Finance and Risk Committee and the Corporate Governance and Sustainability Committee.

The current model also includes an enhanced oversight structure that includes the Supervisory Board and the Statutory Auditor, as well as the Company Secretary.

BOARD OF THE GENERAL MEETING AT DECEMBER 31, 2016

BOARD OF THE GENERAL MEETING

Jorge Manuel de Brito
Position Chairman
Date of appointment 23 October 2015

Maria Joana Machado Lima de Martins Mendes
Position Secretary
Date of appointment 23 October 2015

BOARD OF DIRECTORS[1] AND EXECUTIVE COMMITTEE

1
Mário Filipe Moreira Leite da Silva
Position Presidente
Date of 1st appointment 23 October 2015
BD

2
Francisco Dias Pereira de Sousa Talino
Position Member
Date of 1st appointment 23 October 2015
BD

BOARD OF DIRECTORS[1] AND EXECUTIVE COMMITTEE (CONT.)

3
Manuel António Carvalho Gonçalves
Position Member
Date of 1st appointment 23 October 2015
BD

4
Rui Alexandre Pires Diniz
Position Member
Date of 1st appointment 14 August 2014
BD

5
Miguel Maria Pereira Vilardebó Loureiro
Position Member
Date of 1st appointment 23 October 2015
BD

6
Vanessa Ferreira Loureiro
Position Member
Date of 1st appointment 15 December 2016
BD

7
Ângelo Manuel da Cruz Ramalho
BD Position Member
EC Position Chairman| CEO
Executive Committee areas EC Coordinator | International | Business Development | Strategic Planning and Continuous Improvement | Risk and Contract Management | Communication | Quality, Environment and Safety
Date of 1st appointment 23 October 2015
BD and EC

8
Francisco José Meira Silva Nunes
BD Position Member
EC Position CFO
Executive Committee areas Corporate Finance | Administration and Finance | Cash Management | Management Control | Supply Chain| Legal and Compliance | Human Resources | Infrastructures and Buildings
Date of 1st appointment 23 October 2015
BD and EC

9
Luís Henrique Marcelino Alves Delgado
BD and EC position Member
Executive Committee areas Switchgear | Automation | Electric Mobility | Information Systems
Date of 1st appointment 23 October 2015
BD and EC

10
Fernando José Gomes Mota Lourenço
BD and EC position Member
Executive Committee areas Energy | Environment & Industry | Transportation
Date of 1st appointment 9 December 2015
BD and EC

11
António José Gonzalez Almela
BD and EC position Member
Executive Committee areas Transformers | Service
Date of 1st appointment 20 May 2016
BD and EC

12
João Paulo dos Santos Pinto
BD and EC position Member
Executive Committee areas Transformation Project
Date of 1st appointment 22 August 2016
BD and EC

[1] Resignations and appointments during the 2016 financial year:
- On 6 June 2016, Isabel dos Santos, who had been appointed to the position of member of the Board of Directors at the Extraordinary General Meeting of 23 October 2015, tendered her resignation and was replaced by Isabel Vizeu Pinheiro Pereira Reis by decision of the General Meeting on 30 June 2016. On 31 October 2016, Isabel Vizeu Pinheiro Pereira Reis tendered her resignation from the position of member of the Board of Directors.
- At a Board of Directors meeting held on 15 December 2016, Vanessa Ferreira Loureiro was appointed by co-optation to fill the position left open following Isabel Vizeu Pinheiro Pereira Reis' resignation. This co-optation was ratified at the company's following General Meeting.

Presentation of half year results, Porto Business School, Portugal.

DESCRIPTION OF THE GOVERNING BODIES

All the current members of the governing bodies (except those duly indicated in this chapter) were appointed on 23 October 2015 at the Extraordinary General Meeting to complete the 2014/2016 term, remaining in the positions until new elections under the terms established in law.

BOARD OF THE GENERAL MEETING

Three-year term.

Over the course of 2016, the General Meeting met four times, always in person.

BOARD OF DIRECTORS

Formed of three to fifteen members elected every three years by the General Meeting. It is the General Meeting's responsibility to appoint the Chairperson of the Board of Directors, and it may also appoint a Vice-Chairperson to replace the Chairperson when he/she is absent or unable to perform his/her duties.

The Board of Directors is the governing body responsible for managing the company's activity and its responsibilities are defined in the Statutes and its respective terms of reference. It is the Board of Directors' responsibility to, among other actions, define the Group's strategic direction, and within that scope it is responsible for carrying out management and supervisory functions for the company businesses.

The Board of Directors met seven times during the 2016 financial year.

EXECUTIVE COMMITTEE

The Board of Directors set up and delegated to the Executive Committee the day-to-day management of Efacec. It established its composition, functioning, delegated powers and the assignment of responsibilities and areas of each one of its members.

Under the terms of the applicable legislation, the Non-Executive Directors are responsible for overseeing the Executive Committee's actions.

The Executive Committee is formed of up to seven members and currently has six. It has management powers that are attributed by the Board of Directors, and the Chairperson of the Executive Committee is appointed by the Board of Directors.

The Executive Committee meets every week, often with the wider Board of Directors. Also, with a view to involving management in the Group's development, it also meets on a regular basis with those responsible for top-level management and employees from the different business units and company departments to present and discuss results, monitor ongoing projects, establish management guidelines and discuss and share disclose matters of interest to Efacec and its subsidiaries.

The Executive Committee formally met 46 times during the 2016 financial year to make decisions.

The Executive Committee formally met 46 times during the 2016 financial year to make decisions.

PBS Grand Conference 2016, Porto Business School.

SUPERVISORY BOARD

Supervision of Efacec falls to a Supervisory Board and a Statutory Auditor.

The Supervisory Board is responsible for supervising Efacec's management. The Statutory Auditor is responsible for legally certifying the accounts.

The Supervisory Board is formed of three full members and one alternate member who are elected at a General Meeting, which also elects its Chairperson.

Under the terms of the EPS Statutes and the Supervisory Board's terms of reference, the board performs its responsibilities and complies with its oversight and supervision duties established in Articles 420, 420-A and 422 of the CSC.

COMPOSITION OF THE SUPERVISORY BOARD AS AT 31 DECEMBER 20161[1]

Chairman	José Manuel Gonçalves de Morais Cabral
Member	Sérgio Paulo Esteves de Poças Falcão
Member	António Manuel de Castro Vieira Rodrigues

1) On 29 June 2016, Isabel Vizeu Pinheiro Pereira Reis, who had been appointed to the position of member at the Extraordinary General Meeting on 23 October 2015, tendered her resignation. On 30 June 2016, António Manuel de Castro Vieira Rodrigues, who had been appointed to the position of alternate member of the Supervisory Board at the Extraordinary General Meeting on 23 October 2015, was appointed member, moving from alternate member to full member.

STATUTORY AUDITOR

As at 31 December 2016, the Statutory Auditor and alternate Statutory Auditor were as follows:

Effective: Pricewaterhousecoopers & Associados – Sociedade de Revisores Oficiais de Contas, Lda.

Alternate: Herminio António Paulos Afonso

The Statutory Auditor is responsible for legally certifying the company's accounts and notifying the Chairman of the Board of Directors about any aspects that he/she becomes aware of that are considered serious for Efacec's activity.

SPECIALIZED COMMITTEES

In a decision made on 5 November 2015, the Board of Directors, pursuing the best corporate governance practices, approved the terms of reference of the following specialized committees:

- Corporate Governance and Sustainability Committee;
- Finance and Risk Committee.

These committees assist the members of the Board of Directors in gathering and processing the information needed for the decision-making process and provide contributions for the implementation and monitoring of best practices and the principles intrinsic to the Group's corporate strategy, particularly on matters related to financial analysis, ethics, conduct and company governance, among other aspects. The committees are formed of Non-Executive Directors and members outside the Board of Directors who are recognized for their experience in the committee's area of work.

REMUNERATION, EVALUATION AND APPOINTMENT COMMITTEE

The Remuneration, Evolution and Appointment Committee's responsibility is to set the remuneration for each Director, as well as:

- Planning the succession of members of the Board of Directors;
- Monitoring the processes of identifying potential candidates to top-level positions and front-line Management;
- Establishing contingency plans for top-level managers;
- Annually reviewing remuneration proposals and policies;
- Leading the evaluation of members of the Executive Committee every year, leading the global evaluation of the Board of Directors itself and its committees.

COMPOSITION OF THE COMMITTEE AS AT 31 DECEMBER 2016

Chairman	Fernando Teixeira dos Santos
Member	Mário Filipe Moreira Leite da Silva
Member	MGI Capital, SGPS, S.A., representada por Luís Miguel Nogueira Freire Cortes Martins

COMPANY SECRETARY

Under the terms of Article 446-A of the CSC and for the purposes thereof, the Company Secretary and the Alternate Company Secretary are appointed by the Board of Directors and have the responsibilities established in the law. They terminate their duties at the end of the term of the Board of Directors that appointed them.

The Company Secretary, as well as having the responsibilities established in law, is responsible for supporting the governing bodies, EPS and its subsidiaries and Efacec's other bodies on matters related to company law and company governance. He/she also provides the support needed to carry out meetings of the Board of Directors, the Executive Committee and the General Meeting.

As at 31 December 2016, the Company Secretary and Alternate Company Secretary were:

Company Secretary – Adeodato Alexandre Freire Valente Lopes Pinto

Alternate Company Secretary – Maria João Teixeira Caetano Rodrigues

RELEVANT COMPANY EVENTS

On 1 August 2016, a partial division and merger operation was completed by which part of the assets of Efacec Electric Mobility, S.A. (as the divided company) were assigned and it was incorporated into Efacec Energia (as the acquiring company) in respect of the following business units:

i) energy supply systems;

ii) solar inverters;

iii) projects for application in space.

The transferral of assets and liabilities assigned to the economic units mentioned was made by their book value and accompanied by a reduction in share capital of Efacec Electric Mobility, S.A., by an amount equal to the net worth of the assets assigned to Efacec Energia, i.e., 1.8 billion euros.

In March and May 2016, two capital increases were carried out for Efacec Power Solutions Argentina, S.A. in the following terms:

i) In March 2016, in the overall amount of 4.15 billion Argentine pesos, of which 200,000 Argentine pesos were for the capital increase and 3.95 billion Argentine pesos were taken to issue premium. The capital increase mentioned was fully subscribed and paid up by the shareholder Efacec Energia. Following this increase, the share capital of Efacec Power Solutions Argentina, S.A. went from 100,000 Argentine pesos to 300,000 Argentine pesos;

ii) In May 2016, another capital increase for Efacec Power Solutions Argentina, S.A., in the overall amount of 4.1875 billion Argentine pesos, of which 200,000 Argentine pesos were for the capital increase and 3.987 billion Argentine pesos were taken to issue premium. The capital increase mentioned was fully subscribed and paid up by the shareholder Efacec Energia. Following this increase, the share capital of Efacec Power Solutions Argentina, S.A. went from 300,000 Argentine pesos to 500,000 Argentine pesos.

In December 2016, a capital reduction operation was carried out, followed by a capital increase of Efacec Algérie EURL, with the capital reduction in the amount of 582.0994 billion Algerian dinars and the capital increase in the amount of 220.4134 billion Algerian dinars. Following the capital reduction and increase operation, the share capital of Efacec Algérie EURL was 223.636 billion Algerian dinars.

In October 2016, Efacec Marketing Internacional, S.A. paid up the capital relating to 36,000 shares with a nominal value of 36,000 Brazilian reais, representing 1% of the share capital of Power Solutions Brazil Sistemas de Automação e Potência Ltda.

Aerial view of the EPS head office, Arroteia, Portugal.

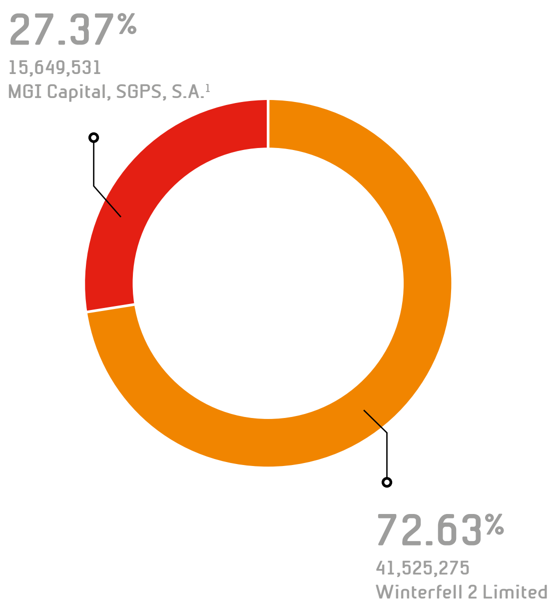
SHAREHOLDER STRUCTURE

EPS' share capital is 285.874 million euros and is fully subscribed and paid up.

GENERAL INFORMATION ABOUT THE CAPITAL STRUCTURE

Share capital as at 31.12.2016	€ 285,874,030
Total number of shares	57,174,806
Nominal value	€ 5.00 (per share)

As at 31 December 2016, the share capital of EPS was held by the following shareholders:



[1] Previously called Efacec Capital, SGPS, S.A.

RISK MANAGEMENT

Due to the nature of its business and its presence in various countries, the risk management strategy plays an important part in Efacec's operations, in particular to the extent that the level of exposure to risk is not uniform throughout the Group. As such, Efacec has a specific framework for promoting the level of risk control within the organisation, which is applied throughout the Group, but adapted to the defined exposure for each market and business.

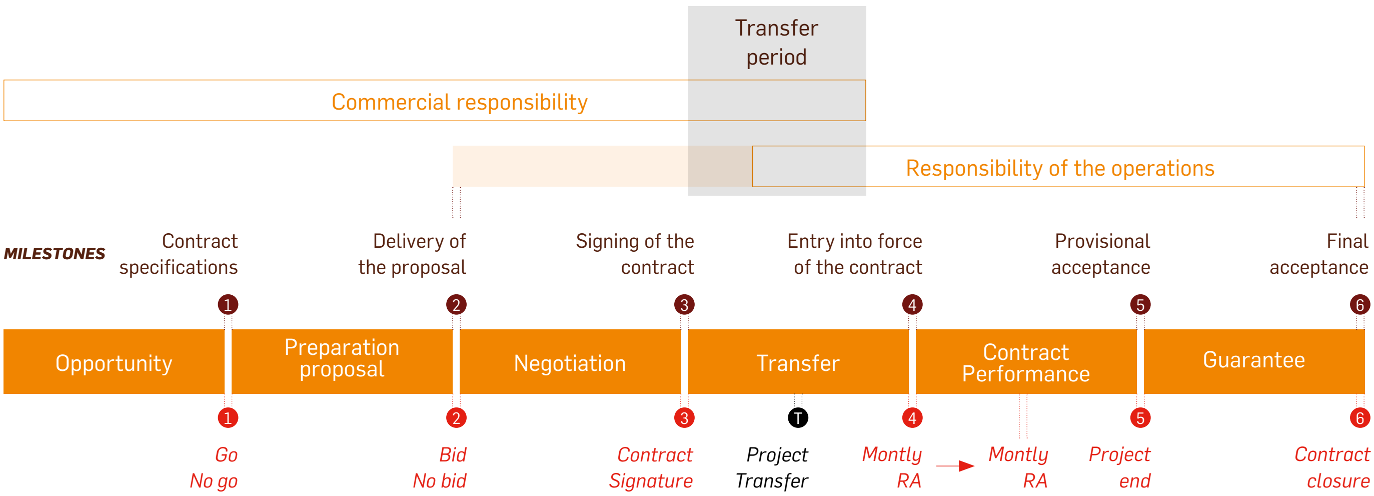
Understanding the concept of risk to be the possibility of events occurring that have a negative impact, which might jeopardise the fulfilment of objectives and the achievement of the strategy, it is important to clearly identify the main risks affecting the life of the company and to ensure that mitigation strategies are in place and fulfilled. As such, systematic risk management is essential in order to effectively deal with the uncertainties to which any organisation is subject, with the objective of improving its ability to create value.

Efacec's Risk Management aims to develop processes and tools for monitoring risks, as well as optimising the strategy for mitigating them, in line with the defined level of appetite for risk.

The framework currently in place accompanies the entire life cycle of the businesses and makes it possible to analyse and manage the risks through different control gates. Accordingly, Efacec ensures that each business carried out is in line with the defined level of appetite for risk and that the decisions taken follow the delegated authorities in force.

Use of this framework encourages interaction between the different internal players, from the Executive Committee to the operating bodies, and promotes a clear vision of the risks, even when they are at the more premature stages of the business, boosting action of a preventative nature.

LIFE CYCLE OF CONTRACTS



With a view to efficient and effective risk management, Efacec's risk management activities are carried out according to the ISO 31000 standard and the recommendations by the CMVM (Portuguese Securities and Exchange Commission).

With regard to risks that might cause an interruption to the businesses' critical activities, the defined procedures are based on the BS 25999-2, OHSAS 18001 and ISO 140001 standards.

Identifying and monitoring risks is an activity that is common to all Efacec's areas, thereby contributing towards establishing indicators, objectives, goals and actions. Deviations from plan are regularly monitored, not only by the Risk Management Department but also by the Management Control Department and/or the Business Units.

The risk management model is carried out through an internal portfolio management platform, which accompanies the full life cycle of the businesses, right from identifying an opportunity until closing a contract.

During the performance phase of the contracts, the risks identified during the commercial phase and the performance phase, are monitored in regular follow-up meetings (steering committees). At the end of each contract, a lessons learned exercise is carried out, with the objective of understanding and reflecting on the experience gained during the project, as well as performing an analysis of the risks that actually materialised. This information is recorded and used as an input when analysing the next commercial proposals.

Training the teams is also one of Efacec's responsibilities, within the scope of its Risk Management policy. Annually, various training activities are developed with the objective of improving internal operations, increasing the ability to anticipate risks and explaining to all employees the importance of this topic at all levels of the Group.

MAIN RISKS AND MITIGATION ACTIONS

During 2016, the main risks identified at Efacec, as a result of monitoring the commercial proposals and contract performances, carried out by the Risk Management Department, are listed in the tables below. The control mechanisms in force in order to overcome each of the identified risks are also presented.

BALANCE SHEET

RISK CATEGORY	CONTROL MECHANISM
1. FINANCIAL in particular, interest rates, working capital, bank credit and guarantees	· Identification of the risk, when analysing commercial proposals · Monitoring, during the proposal phase, of the cost of financing working capital, interest, spreads and bank guarantees · Ongoing management by the Group's Corporate Finance Department
2. RECEIPTS FROM CUSTOMERS	· Identification and investigation when analysing the future customer's commercial proposals · Monitoring by the Risk team in monthly project reports · Ongoing management by the Group's Treasury Area
3. FOREIGN EXCHANGE RATES	· Identification, investigation and monitoring when analysing commercial proposals, and issuing specific technical recommendations to mitigate the risk · Ongoing management by the Group's Corporate Finance Department

MACROECONOMIC

RISK CATEGORY	CONTROL MECHANISM
4. INFLATION	· Identification and investigation of the risk when analysing commercial proposals · Use, during the proposal phase, of price review formulas · Ongoing management by the Business Units, with the introduction of mechanisms for controlling inflation
5. FEES AND TAXES in particular those specific to contracts and regarding the import of equipment and services	· Identification and investigation when analysing commercial proposals · Monitoring by the Risk team in monthly project reports · Ongoing management by the Tax Area of the Group's Finance and Administration Department

BUSINESS

RISK CATEGORY	CONTROL MECHANISM
6. MARKET DYNAMICS	· Ongoing analysis of the data contained in the CRM (Customer Relationship Management · Analysis of proposal Win/Lost, by the Risk team
7. PRICE OF COMMODITIES	· Analysis of the evolution of the price of the main commodities (eg: copper, magnetic sheet, iron, oil) · Monitoring of prices, during the proposal phase, by using price review formulas, minimising exposure · Ongoing management carried out by the Business Units, supported by the corporate functions (Sourcing and Logistics Department and Corporate Finance Department)
8. COST OF LABOUR	· Ongoing management by the Human Resources Department, supported by the Business Units · Monitoring, during the proposal phase, by using price review formulas, for long-term contracts
9. TECHNICAL RISKS	· Identification and investigation of the risk when analysing commercial proposals · Monitoring, during the proposal phase, of the most recurring issues: obsolete products, integration of systems, conditions of acceptance, redundancy factors and compliance with the technical specifications

PERFORMANCE

RISK CATEGORY	CONTROL MECHANISM
10. SUITABILITY OF THE PROPOSALS	· Identification of and investigation into the risk when analysing commercial proposals · Monitoring, during the proposal phase, of the percentage of proposals not accomplished (NoGo and NoBid), respective inherent reasons and associated recommendations · Ongoing management by the Business Units
11. CONTRACTUAL IMBALANCE	· Identification of and investigation into the risk when analysing commercial proposals · Monitoring, during the proposal phase, of the most recurring issues: division of responsibilities, level of penalties, performance deadlines and risk and ownership transfer conditions · Ongoing management by the legal team of the roles and responsibilities of the parties and of the level of contractual penalties

PERFORMANCE (CONT.)

RISK CATEGORY	CONTROL MECHANISM
12. THIRD-PARTY FINANCIAL, LOGISTICS AND EXECUTION CAPACITY	· Analysis of partner companies, subcontracted companies or suppliers, by the Risk team · Ongoing monitoring through the monthly project reports · Ongoing monitoring by the Sourcing and Logistics Department
13. INTERNAL PERFORMANCE WHEN EXECUTING THE CONTRACTS	· Ongoing monitoring of the works execution capacity through the monthly project reports · Monitoring of the production capacity by the Business Units · Monitoring of worktime accidents by the Quality, Environment and Safety Department (QES)
14. PLANNING AND CONTROL OF THE PROJECTS	· Monitoring of the works execution planning through the monthly project reports · Recommendation of delay recovery mechanisms at the Steering Committees · Monitoring of the control of project costs by the Management Control Department · Management of changes to project scopes by the Business Units

Besides the risks specifically linked to the life cycle of the businesses, a set of risks common to the entire Group have also been identified, which are also followed up and monitored using specific control mechanisms.

BUSINESS

RISK CATEGORY	CONTROL MECHANISM
15. DEMAND STAGNATION	· Ongoing analysis of the data contained in the CRM · Analysis of the number, volume and type of proposals by the Risk team, with recommendations for the Senior Management
16. CAPACITY INNOVATION/ TECHNOLOGICAL TRENDS	· Ongoing management by the Technology Management team, in cooperation with the Business Units · Obsolete product management

INFORMATION SYSTEMS

RISK CATEGORY	CONTROL MECHANISM
17. WORK STOPPAGE **18.** REDUCTION IN AVAILABILITY **19.** LOSS AND/OR LACK OF INFORMATION SECURITY **20.** INTRUSION **21.** IMPROPER ACCESS **22.** SECURITY AND CONFIDENTIALITY OF PERSONAL DATA	· Ongoing management by the Information Systems Department, supported by specialised external entities · Performance of periodic robustness, intrusion and penetration tests by specialised entities · Existence of back-up procedures, analysis of system redundancies and system criticality tests

CORPORATE RESPONSIBILITY

RISK CATEGORY	CONTROL MECHANISM
23. BUSINESS RESPONSIBILITY in particular environment, safety, ethics and reputation	· Ongoing management by QES, in cooperation with the Business Units and Communication teams
24. LEGAL ACCOUNTABILITY AND COMPLIANCE	· Ongoing management by the Legal and Compliance Department, in particular concerning legal accountability, fraud and compliance
25. SAFETY OF PEOPLE TRAVELLING OR EXPATRIATES **26.** KNOWLEDGE CONCENTRATION **27.** RECRUITMENT DIFFICULTY	· Ongoing management by the Human Resources Department, in cooperation with the Business Units · Active participation at universities to capture Talent

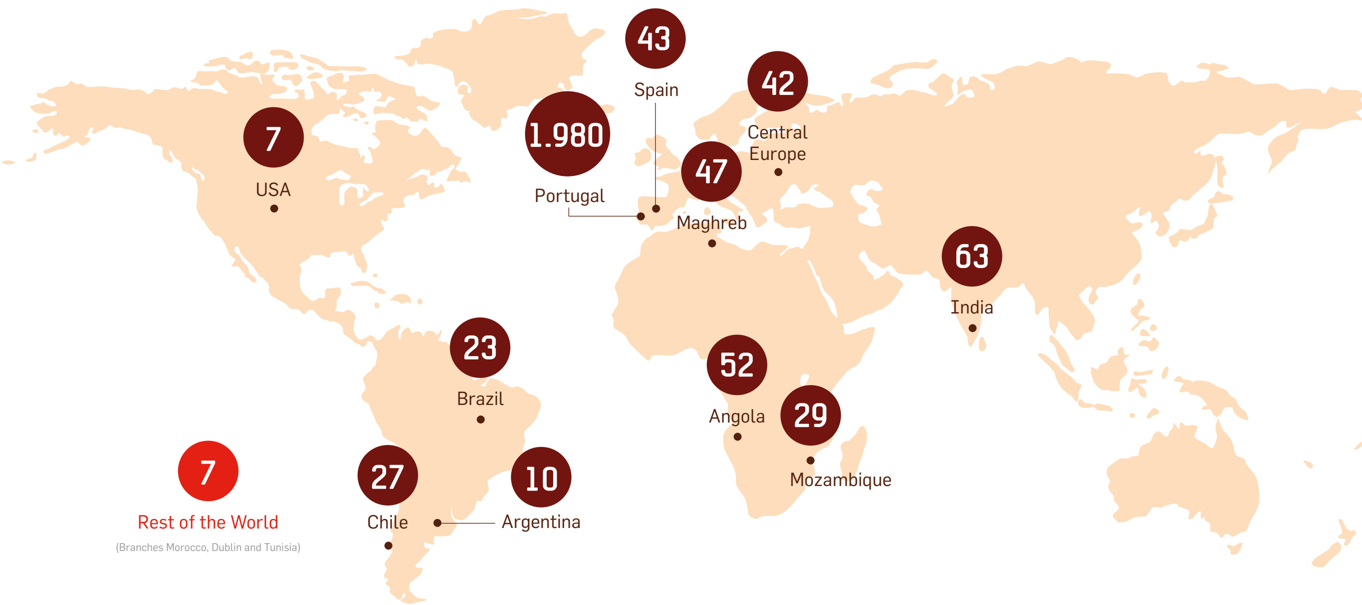
PEOPLE

At Efacec, there is a deep-held belief that employees are the people most responsible for value-creation. This investment in people is reflected in the importance given to Human Resources topics, through the different initiatives to improve internal skills in line with the Group's objectives and values, fostering a culture for ongoing learning and development and promoting meritocracy and equal opportunities among employees.

WHO ARE WE?

In December 2016, Efacec had 2,330 employees, 85% of whom were located in Portugal, Outside Portugal, the employees are mostly located in 10 countries/ regions, especially Spain, Central Europe, India, The Maghreb, Angola, Mozambique, Brazil, Chile, Argentina and the USA.

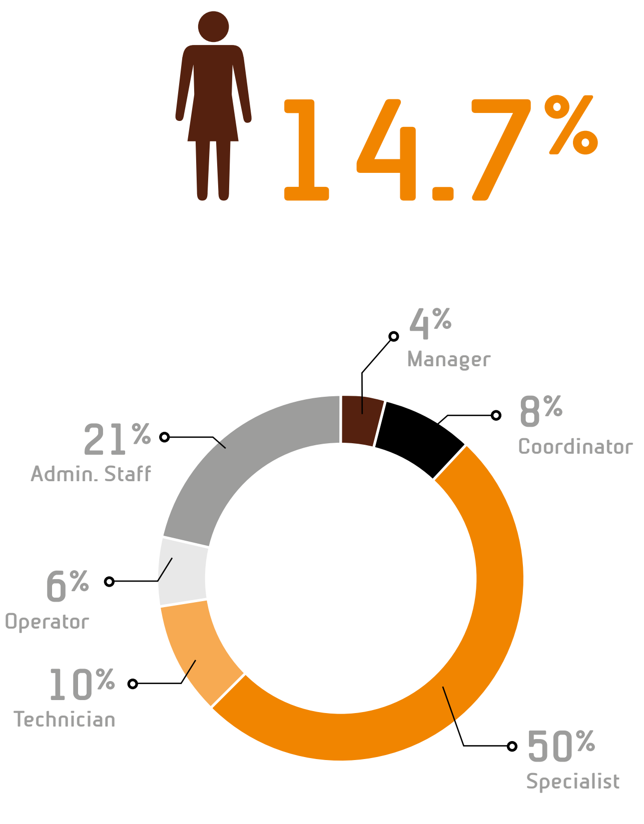
EFACEC EMPLOYEES THROUGHOUT THE WORLD

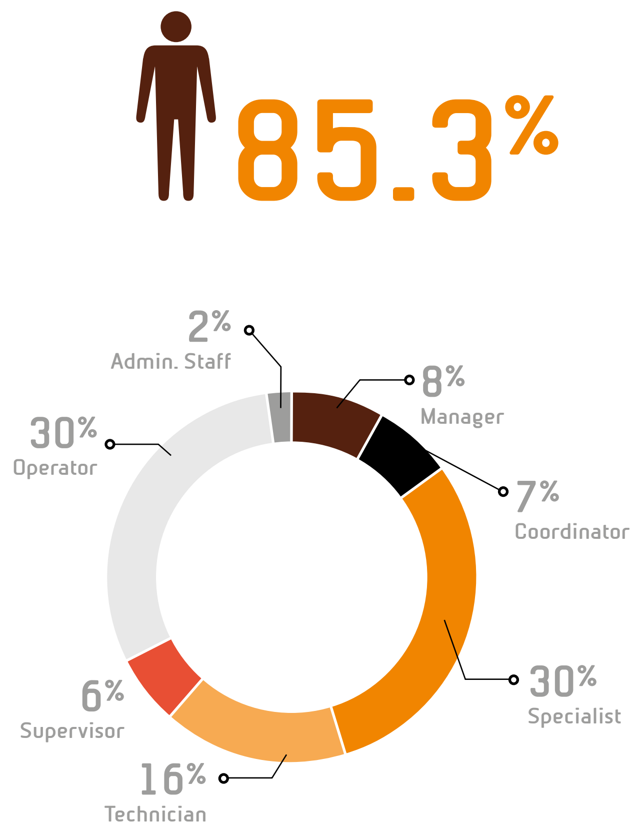


NUMBER OF EMPLOYEES BY CATEGORY AND LOCATION

CATEGORY	Portugal				Other Countries	Total
	Arroteia	Maia	Oeiras	Others		
Director	6					**6**
Manager	78	52	23	1	16	**170**
Coordinator	80	49	20	1	23	**173**
Specialist	207	296	141	1	119	**764**
Technician	127	111	43	1	66	**348**
Supervisor	61	17	26	3	17	**124**
Operator	471	53	20	12	71	**627**
Admin, staff	41	22	16	1	38	**118**
Overall total	**1,071**	**600**	**289**	**20**	**350**	**2,330**

BREAKDOWN OF EMPLOYEES BY GENDER AND BY CATEGORY, WORLDWIDE





Despite the continued efforts over the last few years towards non-discrimination regarding gender, only 14% of the employees are women, which is the same figure as in 2015. This reality is the consequence of the sectors in which Efacec operates, which are traditionally dominated by men, and of the countries in the world where it does business. In those countries, Efacec applies the same Human Resources management criteria and processes as it practices in Portugal, whereby any potential sources of discrimination are eliminated.

SOCIAL INDICATORS

ITEM	Scope	2016
Permanent Employees	National	**1,803**
Employees with a fixed term contract	CT	**171**
Executive Directors		**6**
	National	**1,980**
	Subsidiaries	**350**
Employees	Overall	**2,330**

TRAINING

The Efacec Academy successfully maintained its certification by DGERT, the Portuguese Directorate-General for Employment and Labour Relations, as a Training Body for the following areas: Personal development, Foreign Languages and Literatures, Computer Sciences, Electricity and Energy, Occupational Health and Safety.

This certification ensures that procedures and practices are carried out in accordance with a specific quality standard for training, enabling access to funded training, to other certifications, such as passport security (training required by customers), which is also an asset when our Business Units bid for national and international projects.

During 2016, Efacec provided its employees with **23,054 hours of training** in different fields, given by internal and external trainers. The investment in training in technical areas, QES and Personal Development was reinforced, with a final volume of 13,541 hours given by internal trainers. Of that total, **7,951 hours were for training to customers, and the overall satisfaction with the training rose to 88%**.

One of Efacec Academy's main objectives is to promote synergies between the different Business Units, boosting the sharing of ideas and best practices and achieving a complement between products and solutions. As such, through close liaison with the Business Units and with the Technology Management Office, throughout 2016, workshops and sessions were developed for sharing ideas and best practices, which involved Efacec employees and external entities, such as national and international universities and research institutes.

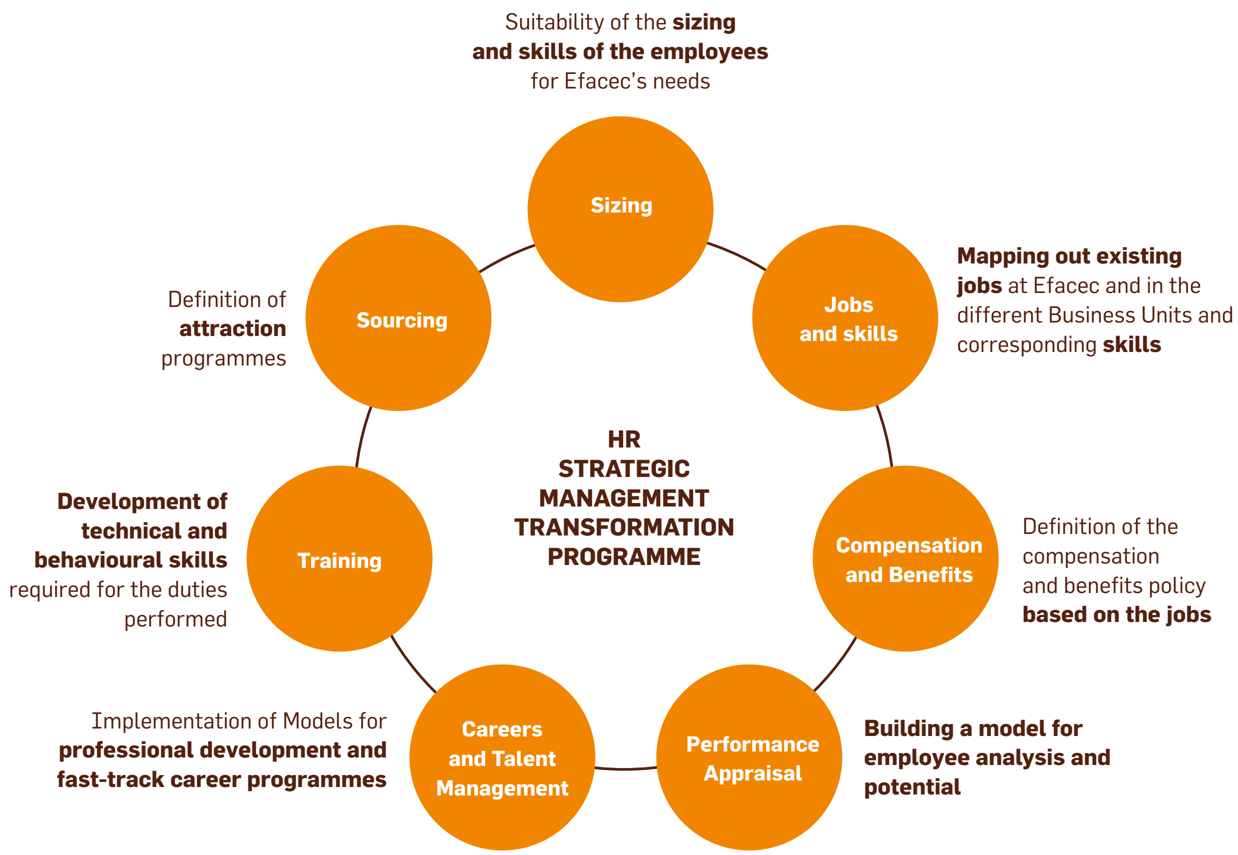
Within this context, it is important to highlight the **visit by the Institute for High Voltage Technology (IFHT) to Efacec in Maia**, in which 21 international researchers participated. The aim of this meeting was to promote synergies and exchange where presentations were given by the two entities, focused on their particular areas and on relevant projects of common interest. Specific presentations, workshops and focus groups took place, as well as visits to the main operations at the Maia site.

During 2016, Efacec promoted the sharing of knowledge and experiences between the organisation's various teams, through specific initiatives **such as visits to Efacec projects. Within this scope, it is important to highlight the visit to three important projects: Windart Project, considered to be the "greatest contemporary art project in the world" in the wind park in Moimenta da Beira, the Ave WWTP and EDP Distribuição's dispatch centre.**

EFACEC'S NEW VISION FOR MANAGING HUMAN CAPITAL

The business world has undergone profound changes with organisations having to adapt their management processes to be able to face a new era, with greater external and internal challenges. Within this context, human capital management, understood to be the employees set of knowledge, skills and attributes, becomes increasingly important.

Within the framework of Efacec 2020, it was deemed essential to develop an integrated human resources strategic management model, built on seven aspects:



Employee visit to the WindArt Project – Wind Park in the Southern Douro, Portugal.

Efacec aims to reach a series of objectives through this strategic project:

- **Align the organisation and the jobs with the new organisational model and business portfolio**, by having the right sizing and a streamlined, simplified job model across the entire Group.

- **Promote the horizontal structure of the group**, by aligning the average number of subordinates per manager with management best practices.

- **Align the organisation in terms of a new vision, mission and values**, by aligning the Group's strategic objectives with the employees' individual performance targets (whose degree of achievement will be periodically monitored) and ensuring that all the employees are aware of the critical behaviour arising from the new values, and are assessed on them.

- **Promote leadership excellence**, by designing development programmes directed at the managers and using training and advanced tools to enable them to manage their teams' performance more effectively.

- **Attract talent**, promoting Efacec as a benchmark entity in the job market and being able to attract the best professionals from schools and universities through structured and attractive integration programmes.

- **Motivate, develop and retain talent**, through programmes for developing skills, adjusted to the demands of the business and the aspirations of the employees, with attractive and strict recognition and reward instruments, and pro-actively managing the succession and internal mobility processes, by being able to identify and develop the existing potential within the organisation.

- **Improve the human resources management processes** by simplifying and automating, namely by implementing a new platform for the performance management and compensation and benefits management, having the Human Resources Department and the Organisation focused on the strategic development aspects, and extending the defined processes to all the company's countries.

The human resources strategic management transformation programme started in June 2016 where the following initiatives in 2016 are highlighted:

1. Review of jobs and skills

A survey, review and description was made of all jobs at Efacec, in line with the new business model and respective organisational structure. This job review implied conducting a common process for simplifying and streamlining the jobs throughout the Group. The jobs were fitted into a new functional type which takes into account the area of activity and level of responsibility and will be used as a basis for all the human resources management processes. Once the jobs had been defined, an assessment of them was made in accordance with an international methodology, making it possible to measure the importance of the individual contribution of each job to the organisation.

2. Design of the performance and development management model

Built on a new IT platform, "More Performance" aims to be a management tool that boosts the Group's strategic alignment through objectives that are defined using a top-down logic and common skills aligned with the company's values. It also seeks to better adjust the skills to the jobs, and promote a culture of feedback, varying the sources and communication instruments. It is a stricter and more objective model in making a final appraisal of the employees, placing equal value on results and the behaviour shown. It is focused on developing the employees, encompassing individual development plans which contribute towards the excellence of individual performance and which nurture the professional aspirations of the employees.

3. Design of the compensation and benefits model

The new model aims to ensure that the internal remuneration practices and Efacec's external competitiveness are fair, so essential for its sustainability as a benchmark technological company regarding know-how and talent. The new Compensation and Benefits Model, which will only be finalised and communicated in 2017, will be designed using a logic of total compensation and aims to be adjusted to the positioning that each job occupies within the organisation and to the relevant market practices/trends, and is an important instrument for recognition, motivation and talent retention.

4. Review of the career and talent management model

With regard to the career and talent management model, to be defined and implemented in 2017, we aim to design professional career paths for various jobs, with clear, strict and transparent progression criteria. We want to implement a dual career model, critical for Efacec, given the technological expertise of the sector in which it operates, whereby the technical career will be valued along with the management career. We also want to implement professional fast-track programmes for high potential employees, making it possible to ensure the retention of critical talent for the sustainability and future of the business.

Employee visit to the WWTP in Ave, Portugal.

A GLANCE AT THE PEOPLE

ANTÓNIO PINHEIRO

HUMAN RESOURCES DIRECTOR

In 2016, we saw the start of Efacec's transformational process, what is the role of the people in this transformation?

The role of the people is key to this transformation. Having the involvement and engagement of Efacec's people in a process of organisational change, is an essential condition for ensuring the sustainable future of the Group.

Efacec's new vision, mission and values can only be achieved if they lead to behaviour seen in all the employees, every day.

Naturally, our human resources management processes, along with our Leadership, must be aligned with the new strategy, as they will work as catalysts and facilitators of the behavioural transformation process and, consequently, the organisational transformation process.

The transformation process that is in progress also generated an internal transformation of the human resources topics. At this stage, are their measurable results regarding the initiatives carried out?

Yes. From the point of view of the organisation of the Human Resources Department, there is now a more focused structure, which combines teams dedicated exclusively to areas of responsibility with teams dedicated exclusively to operational support to the Business Units (HR Business Partner model). From the point of view of the human resources management programmes, a new performance management model has already been implemented, which was totally remodelled both from a content perspective and the IT platform supporting it. This implementation implied in-depth training for all the employees with team management roles, as part of a Leadership Academy which contemplated training modules adapted to the various levels of the organisation, and which involved around 340 employees.

The organisational alignment process regarding the strategic objectives was also successfully concluded. It is now possible for all employees to view the objectives of their organisational unit, which are aligned with the strategic pillars, and are being used as a reference for them to be cascaded into individual or team performance objectives.

Equally, all Efacec jobs now have streamlined and mapped out descriptions (around 350 jobs with an identification of the respective technical profiles), which is a cornerstone for all the processes related to the new Compensation and Benefits Model and the new Careers Model, which will be implemented during 2017.

From an internal communication point of view, important proximity and transparency initiatives were undertaken with a significant number of meetings of the Board with all the employees.

Knowing of the ongoing nature of the transformation project, what are the main initiatives programmed for 2017?

For 2017, a new compensation and benefits model is programmed to be communicated and implemented, which aims to ensure the fairness of the internal remuneration practices and the company's external competitiveness, both of which are essential for Efacec's sustainability as a benchmark technological company regarding know-how and talent in the area of Energy. In addition, the new Careers Model will be communicated and implemented, which will contemplate professional development paths for the various job families, with clear, strict and transparent progression criteria for the organisation.

Also, within the scope of performance management, we aim to implement a pilot 180º Feedback model for the top management positions, which aims to be an important tool for developing and aligning the managers' leadership style.

From the point of view of talent attraction, important initiatives are foreseen within the scope of implementing structured and attractive programmes for selecting and integrating new employees.

The annual training plan will be implemented based on a diagnosis of operational needs, collected from those responsible for each organisational unit, as well as the common training needs related to the new defined values.

Visit by 21 researchers from IfHT – Institute for High Voltage Technology to the site in Maia, Portugal.

INNOVATION

Technological innovation is the basis for rising to the challenges in the sectors and markets in which Efacec does business, offering sustainable, differentiating solutions that generate value for its customers and for society as a whole. Technological innovation is of strategic importance, which can be seen in the continued update of the Group's technological portfolio, comprising innovative solutions at an international level, completely developed in-house, leveraged on an ecosystem of complementary partners in terms of know-how. Technological innovation at Efacec starts with a need experienced by customers, or a future challenge, being identified by a multi-disciplinary team. This internal assimilation of vast and complementary technical skills is supported by an investment in Technological Research and Development and complemented by an ongoing policy for technological partnerships with benchmark entities, worldwide.

EFACEC'S APPROACH TO INNOVATION

Continuing on with Efacec'c long tradition as a Group with a strong component in technological innovation, in 2016 the overall investment in innovation was reinforced, in particular in the Energy, Environment, Transportation and Electric Mobility sectors.

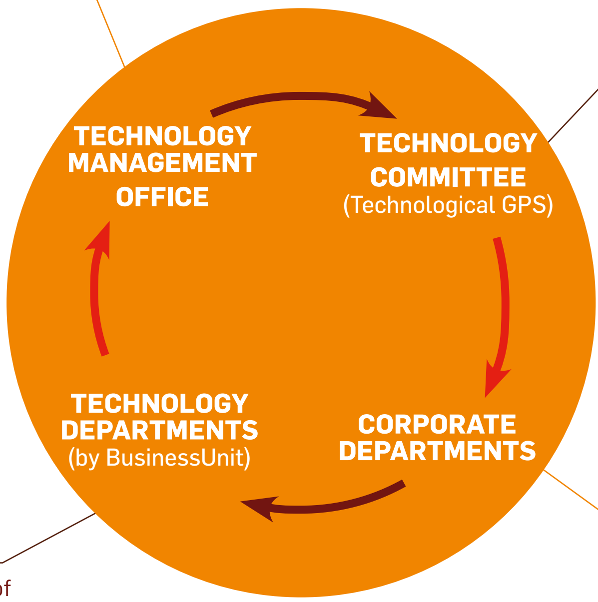
The strong investment in value-creation through technological innovation substantiated in the creation of a new function throughout Efacec. The mission of this function is to increase the focus and management capacity of technological innovation and promote technical synergies and processes between the different Business Units.

This function is headed up by the Technology Management Office and the Technology Committee - Efacec's Technological GPS - which have a coordinated and common approach with the Technology Department of each Business Unit and the various Corporate Departments.

The main objective of the function of Technology Management is to actively contribute so that Efacec, as a Group, can respond effectively and efficiently and in a timely manner to the major digital transformation under way in the sectors and markets in which it does business, in particular in the energy and mobility sectors.

Technology Management is like a new catalyst for Efacec's different structures, enabling the Group to be more innovative in creating, optimising and tailoring Products, Systems and Services, which it supplies every day to its customers.

- Support for defining the Efacec Group's Technology and Innovation strategy
- Design of the technological development strategic roadmap
- Working as a catalyst and coordinator in terms of the technological innovation common throughout the Group
- Support for defining and achieving the technology and innovation strategy
- Promoting R&D and Innovation projects and initiatives, diversifying resources and sources of funding.
- Monitoring the technological magnitude
- Developing technological radar



- Consultative and strategic Advisory Board, focused on technological development trends

- Focus on the development and sale of state-of-the-art products
- Focus on the development and implementation of turnkey solutions with a strong engineering component integrating various systems

- Activity in liaison with the Technology Management structure, identifying and capitalising on potential synergies in a transparent manner across the Group

Efacec's Technology Forum at a strategy meeting.

EFACEC'S PERFORMANCE IN 2016

Every year Efacec ensures that there is a sustainable, significant investment in TRD activities identified as being of the utmost importance for the future success of the Group.

MAIN TECHNOLOGICAL INNOVATION FIGURES AT EFACEC IN 2016

Investment in TRD (% of revenue)
2.3%

Number of employees involved in TRD activities
~250

Number of entities with scientific and technological partnerships with
> 50

Number of TRD projects involving the design of new technological solutions
> 40

Number of technical articles presented internationally
> 20

With regard to technological innovation initiatives carried out in 2016, the following are highlighted:

1. Creation of Efacec's Technological GPS, as a forum for strategic reflection on the Group's technological development, comprising internal technical experts and a group of external experts of renowned scientific merit, in different areas of interest.

2. Strategic investment in creating TRD partnerships with entities from the National and International Scientific and Technological system and with technological start-ups in fields close to Efacec's business sectors.

3. Consistent investment in the increase in active participation in TRD projects nationally and internationally, namely within the scope of the Portugal 2020 and Horizonte 2020 programmes.

4. Systematised preparation of development and business plans for each new technological area considered to be of high future potential.

5. Reinforcement of Efacec's technological and innovative image before the academic and scientific community, through the active participation of employees in initiatives for promoting the development of technical and economic skills and soft skills.

6. Reinforcement of Efacec's participation in technological forums which come under areas of strategic interest.

Eng. Ângelo Ramalho at the 2016 INEGI Conference.

NUNO SILVA

TECHNOLOGY MANAGEMENT OFFICE

In 2016, Efacec underwent a strong restructuring and repositioning with regard to innovation, with the creation of a common technology management structure. What were the grounds for its creation and what are the main objectives?

This new body within Efacec's structure is a catalyst for the Group's future technological innovation. Its creation is based on the fact that technological development and innovation are crucial for Efacec's activity, and so it endeavours to leverage the Group's endogenous facilities and knowledge, in order to promote the creation, optimisation and tailoring of Products, Systems and Services in processes that produce synergies between Business Units. The strategic importance of innovation and technological development can be clearly seen in the constant update of the technological portfolio where there are products completely developed in-house, besides the areas of calculation and planning, as well as in production and integrated systems, for which there is highly qualified group of technical staff, as well as a vast network of national and international partners.

What is the urgency and the relevance of this new approach to technological innovation?

The transformation of the energy sector is a challenge to which Efacec aims to rise with sustainable and differentiating solutions. The need to increase the system's efficiency, resilience and reliability, even when taking into account all the different assets (including sources or renewable origin), requires the systems to have multiple technologies. Besides this being a concern during internal development processes, Efacec actively participates in international technical groups, in order to make a positive contribution and to follow the state of the art in standards and rules, besides the various regulatory evolutions that the sector is facing.

The transformation of the energy sector is a challenge to which Efacec aims to rise with sustainable and differentiating solutions.

Of the various initiatives and innovations that took place in 2016, which do you think deserve to be most highlighted?

2016 was a year of many changes, with a wide variety of initiatives both on a global level for Efacec, and specifically for each Business Unit. Although there are many, good examples that are worth mentioning with regard to products, complex solutions and engineering for integrating systems, due to their innovative potential, strategic nature and recognition within the market, I would highlight 3 innovations:

- The ultra-quick charging system for electric vehicles, Porsche being the first customer, and where Efacec stands out as being a pioneer by achieving a capacity of 350kW;
- The electricity grid advanced management system (ADMS), including the smart grids concept and clearly differentiating functionalities;
- The combined multi-phase and multidisciplinary numeric modelling, algebra modelling and respective multi-scale experimental validations for Core type transformers.

And in 2017? What can we expect Efacec to do in the field of technological innovation?

Efacec's investments in terms of technological innovation have been defined in its strategic roadmap. This means that there will be initiatives that are more immediate and others which cover several years. There are projects that will continue to be developed in 2017 and which cover areas such as asset management, demand response, systems for storing energy and developing solutions for the digital sub-station. There are also other multi-disciplinary initiatives in progress, which have to do with aspects such as Efacec's digitalisation (this being a progressive process facilitated by the use of the Internet of Things (IoT) platforms and leveraging Big data and Machine Learning tools), cybersecurity and material technology. Other areas of interest where Efacec is developing initiatives are smart cities, positioned with an added value offer, integrating solutions that bring together a variety of our skills, the use of digital models and automatic calculation and 3D tools to optimise the design of products and systems. Also worth highlighting is the continued investment in solutions for wireless and V2G charging of electric vehicles. These topics will be developed whenever necessary, supported by the ecosystem of existing R&D partnerships.

ISPIM Conference and visit to the Transformers Unit, Arroteia, Portugal.

ENVIRONMENTAL PERFORMANCE

Over the years, Efacec has given the greatest attention to the topic of environmental sustainability. The need to understand the environmental impact of its products and activities means that the topic is being continuously monitored and receiving priority treatment. The focus and main objective are continuous improvement to the environmental performance, using preventative and corrective measures,as well as by raising the awareness of all stakeholders.

ENVIRONMENTAL MANAGEMENT OF THE PRODUCTS

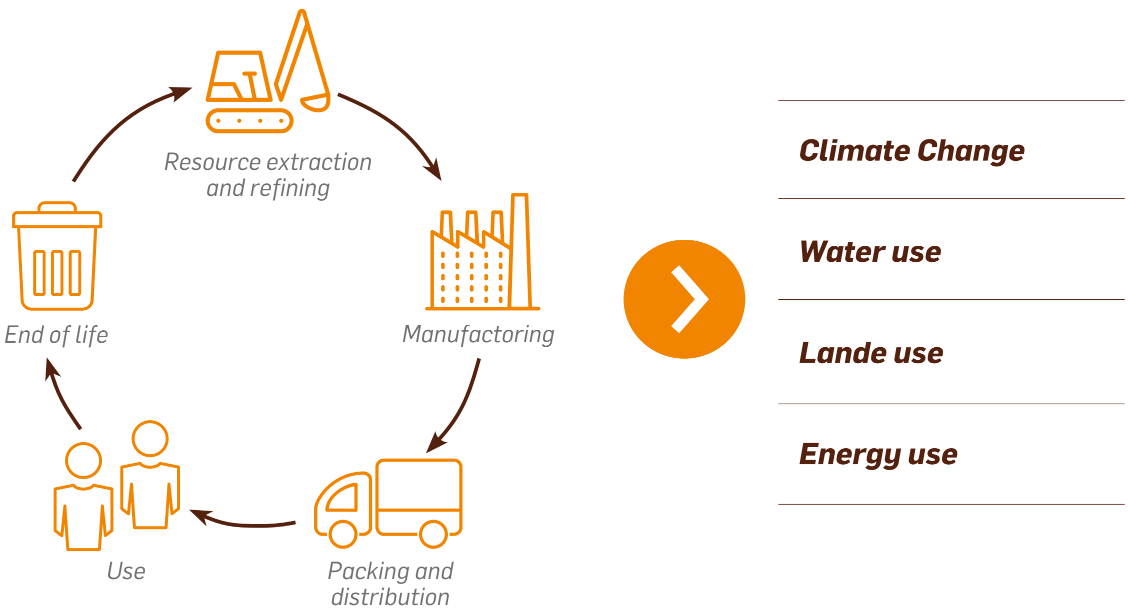
The topic of reducing Efacec's environmental impact has been covered through various initiatives essentially focused on the following areas:

- Educational and awareness activities on environmental issues.
- Reducing emissions during manufacturing.
- Improving the energy efficiency of the products throughout their life cycle (from design to their daily use).

One of the mechanisms used to monitor and assess the environmental impact of Efacec's products is the methodology developed in 2014 to assess the products' life cycle. This methodology is based on indicators that reflect the environmental burden of the materials, processing, transportation, energy and recycling, among other topics. The higher the score obtained in these indicators, the greater the estimated environmental impact.

The use of a life cycle assessment tool enables Efacec to optimise its choices regarding the materials and manufacturing processes used, right from the product design stage. This tool is Efacec's first step on the path towards ecodesign and towards the circular economy.

THE PRODUCTS' LIFE CYCLE



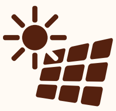
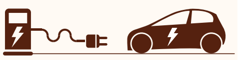
Within the scope of using this methodology, of particular note in 2016 is the life cycle assessment of the TPU500 product, produced by ASE. In this assessment, it was possible to identify that the stage with the greatest environmental impact is when the equipment is used. For the future, the idea is to extend this methodology to other Efacec products, so as to enable different ranges and models to be compared and to reorganise an economic model focused on coordinating the production system in closed circuits.

A set of Efacec's environmental indicators, in 2016, is presented below.

Percentage of metallic plate recycled (based on total consumption in the year)	Consumption of metallic plate compared to the previous year	Consumption of paper and cardboard packaging compared to the previous year
20%	-17%	-12%
Production of renewable energy in	**Reduction in particle emissions compared to the previous year**	**Energy consumption in national territory**
1,116GJ	-17%	86,608GJ

TPU, series 450 (Automation Testing Room).

ENVIRONMENTAL IMPACT OF EFACEC'S ACTIVITIES

Areas	Business Units	Contribution towards reducing the environmental impacts
Products 	Transformers	Efacec's transformers are among the most efficient in the market and are designed taking into consideration their entire life cycle
	Switchgear	The Medium Voltage equipment is designed using ecodesign methodologies and using a vacuum as an alternative to SF6 (greenhouse gas)
	Service	The Service activity makes it possible to recondition a large amount of energy equipment (of internal or external origin) so that it can be reused and large savings achieved in materials and other resources
	Automation	Various components are developed for smart grids of energy (smart grids), significantly contributing towards energy efficiency
Systems 	Energy	Renewable and clean energy equipment is designed and installed, namely wind parks and photovoltaic panels that make it possible to eliminate the emission of CO_2
	Environment & Industry	Water treatment systems as well as processing plants and solid waste recycling plants are designed and installed
	Transportation	Systems for operating light rail or metros are designed and installed, which are projects that significantly reduce the emission of CO_2
Electric mobility 		Chargers for electric vehicles are developed and installed, enabling a significant reduction in the emission of CO_2 from transport

Photovoltaic panels on the roof of Efacec's site in Maia, Portugal.

Raising environmental awareness has been used as a priority tool for promoting a change in attitude regarding the protection of the environment. In 2016, Efacec developed and participated in various environment-related initiatives, of which the following are highlighted:

- Celebration of World Environment Day, through an awareness campaign with all employees, information having been provided through posters placed in the social areas and a small surprise gift distributed in the canteen with messages concerning the topic.

- Participation in the EDP Green Week (invitation from our partner company, EDP), to promote the sharing of experiences regarding Environmental Management.

- Presentation entitled "The main environmental concerns at Efacec and their evolution" at the Museu da Electricidade (Electricity Museum) in Lisbon. At this event, Efacec had the opportunity to present the main historic milestones of sustainability, the evolution of its environmental certifications, mission and vision and the main actions in operational control.

- Participation in the exchange of experiences and best environmental practices during works, carried out in Viana do Castelo.

OPTIMISATION OF THE ACTIVITIES - MANAGEMENT SYSTEMS

Efacec's involvement in environmental issues is also based on the optimisation of its activities across the Group, based on the following initiatives:

- Integrated analysis of the standards that are the pillars for Certification in Quality, Environment and Safety.

- Preparation, since 2016, of the transition from the current Management System to the new NP 2015 standards.

In order to ensure that the transition from the current Management System is successful, as well as to help in any relevant environmental issues nationwide, Efacec has actively participated in defining environmental reference standards in Portugal, through cooperation on the Technical Committees, 150 (regarding Environmental Management) and 80 (regarding Quality Management and Quality Assurance).

The main changes to these standards will be seen at the following levels:

NP ISO 14001: 2015
Strategic Environmental Management
Leadership
Environmental protection
Environmental performance
Life cycle approach or thought
Communication
Documentation
Scope
Objectives and Management
Programme
Risk analysis

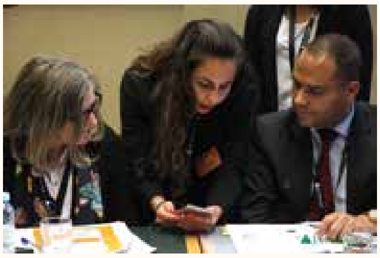
NP ISO 9001: 2015
Streamlined structure
Context of the Organisation
Stakeholders
Services
Approach through processes
Thought based on risk
Focus on the result
Objective and Management
Programme Leadership
Documentation

RELATIONS WITH SOCIETY

As in previous years, in 2016, Efacec actively participated in civil society. Initiatives were carried out, both on an individual basis, through direct support provided by the company, and via partnerships with various institutions. As far as Efacec is concerned, giving back to society is an opportunity to show the importance that is attributed internally to the topics of economic and social sustainability, by contributing actively towards maintaining a healthy and sustainable community.

The indicators presented reflect Efacec's activity with Civil Society during 2016, with a special note for the following initiatives:

SKILL VOLUNTEERING: THE JUNIOR ACHIEVEMENT PORTUGAL PROGRAMME



On 23rd May at Fundação Calouste Gulbenkian, "Junior Achievement Portugal", a partner of Efacec for volunteering, presented 31 mini-companies created by young entrepreneurs from secondary and vocational education and study progression from all over the country, who competed in the ninth national competition of the programme "A Empresa" (The Company).

In total, 155 students from 16 municipalities presented their business proposals, competing for the award of best mini-company.

The students presented their mini-companies before a jury comprising employees from various companies and organisations, which included Efacec. Consequently, as a prize to the students, Efacec awarded them the possibility of doing an on-the-job internship for five days.

Efacec has already renewed its commitment to "Junior Achievement Portugal", by confirming the participation of a significant number of employees in the volunteering programmes that will take place in 2017.

SUPPORT TO THE ANDEAN POPULATIONS OF AYQUINA, CUPO, TOCONCE AND CASPANA

In the Andean settlements of Ayquina, Cupo, Toconce and Caspana, Efacec installed lighting, cooling and freezing systems, whose power is provided by off-grid photovoltaic systems. This project was carried out with the support of the local municipalities and protocols signed with the Calama municipality and the indigenous communities in the region.

Within the context of installing photovoltaic parks, Efacec also had the opportunity to create various jobs in construction, operation and maintenance.

SUPPORTING UNIVERSITIES AND THE ASSOCIATION MOVEMENT

During the first half of 2016, Efacec became a member of INEGI (Institute of Science and Innovation in Mechanical and Industrial Engineering), of the Conseil de Cooperation Economique, the Porto Business School and the French-Portuguese Chamber of Commerce.

Efacec sponsored the Fórum Internacional das Comunidades Inteligentes e Sustentáveis (International Forum for Intelligent and Sustainable Communities) held in May, in Braga, and was a speaker on the topic of smart energy grids.

Among other events, it sponsored the Grand Conference 2016 organised by Porto Business School, the seminar of the 10th Anniversary of Associação Portuguesa para a Normalização e Certificação Ferroviária, Porto University's Congresss and Meet 2030, an event from the Portuguese subsidiary of the Business Council for Sustainable Development.

In July 2016, Efacec loaned its facilities for a workshop to be held for publicising the Objectives of Sustainable Development, a session also organised by the Portuguese subsidiary of the Business Council for Sustainable Development.

PUBLIC APPEARANCES AND VISITS

Representing the Ministry of the Environment, the Minister of the Environment, Mr. João Matos Fernandes and the Deputy Secretary of State for the Environment, Mr. José Mendes, visited Efacec on 8th April 2016. Equally, representing the Ministry of the Economy, the Secretary of State for Industry, Mr. João Vasconcelos, visited the company on 28th May 2016. These visits took place at the Maia site, favouring the activities regarding Electric Mobility and Automation, considered to be areas with an indispensable contribution towards the development of the so-called green economies, recognised as being technologically innovative by these Government representatives.

Also of note is the visit by the Tunisian Ambassador, Mme. Saloua Bahri, which took place on 4th May 2016, to the manufacturing operations for Distribution/Power Transformers and Switchgear in Arroteia, and Automation in Maia.

Eng. Pedro Silva, Eng. Ângelo Ramalho e Dr. João Vasconcelos.

OTHER IMPORTANT INITIATIVES FOR CIVIL SOCIETY

In 2016, donations from employees were collected for the Bombeiros Voluntários Portuenses (voluntary firemen) and for the Social Store in Senhora da Hora.

Within the scope of the company's involvement in the Porto City Council's programme "Porto de Futuro", Efacec continued to be represented by a manager at all the meetings of the Governing Council of Escola Secundária Filipa de Vilhena that were held in 2016.

In January 2016, Efacec offered office furniture to the institution Refood Maia. Efacec also cooperated with Obra do Frei Gil by offering to print the promotional materials for the Laço Azul campaign.

Efacec was a case study in the "Innovation Now!" 2016 from BEST Aveiro, an annual symposium for sharing ideas, knowledge and experiences among professionals and students who deal with innovation in their daily lives. Around 30 students from different areas at Universidade de Aveiro participated in the case study that was presented, which was dedicated to the topic of "Electric Mobility, an indispensable area undergoing expansion". The winning team presented its work which was awarded for its degree of innovation, the viability of the projects and the impact for Efacec.

Efacec also gave a lecture, presenting its areas of activity, organisational structure, its relationship as a partner of the academy and the way to promote innovation. It also participated in the Round Table "Where do good ideas come from".

General Management Meeting

ANNEXES

DOCUMENTS FOR RENDERING CONSOLIDATED ACCOUNTS

CONSOLIDATED FINANCIAL STATEMENT AS AT 31 DECEMBER 2016 AND 2015

Euros

	Notes	2016	2015
ASSETS			
NON CURRENT ASSETS			
Tangible Fixed Assets	5	39,603,605	43,421,973
Intangible Fixed Assets	6	82,949,642	83,756,243
Goodwill	7	120,158,240	121,313,286
Financial Investments in Associated Companies	4.1.3	1,200	0
Financial Investments in other companies	8	26,132	26,132
Deferred Tax Assets	18	57,053,564	54,795,988
Total Non Current		**299,792,382**	**303,313,622**
CURRENT ASSETS			
Assets Held For Sale		186,455	148,009
Inventories	12	36,264,015	51,617,339
Customers and Accrued Income	10	239,387,332	271,227,012
Loans to Related Parties	28.2	724,605	3,437,588
Debtors and Deferred Costs	11	31,081,122	23,100,870
Income Tax	11	1,755,538	1,682,395
Cash and Cash Equivalents	13	29,024,861	38,108,319
Total Current		**338,423,926**	**389,321,532**
Total Assets		**638,216,308**	**692,635,154**
EQUITY AND LIABILITIES			
EQUITY			
Capital	14.1	285,874,030	285,874,030
Issuance Premiums	14.1	8,000,000	8,000,000
Other changes in net assets	14.2	35,900,000	35,900,000
Reserves and Accumulated Results	14.3	-16,255,969	-19,894,387
Consolidated Net Income	14.4	-4,252,498	-1,094,642
Minority Interests	21	-117,968	-102,559
Total Equity		**309,147,595**	**308,682,442**
NON CURRENT LIABILITIES			
Provisions	19	12,264,625	12,058,690
Bank Loans	17	70,544,456	60,744,456
Bank Loans	15	19,017	3,005
Deferred Tax Liabilities	18	22,382,876	23,394,566
Total non-current Liabilities		**105,210,974**	**96,200,718**
CURRENT LIABILITIES			
Debts to Credit Institutions	17	2,872,165	24,819,931
Loans from Related Parties	28.2	0	3,437,473
Suppliers	15	85,783,287	79,684,190
Creditors and Accrued Costs	16	55,474,604	53,931,137
Deferred Income	20	79,184,498	125,879,263
Financial Derivatives Instruments	9	543,187	0
Total current Liabilities		**223,857,740**	**287,751,995**
Total Equity and Liabilities		**638,216,308**	**692,635,154**

Attached Notes hereafter are an integral part of the consolidated financial statements

The Consolidation Director

The Board of Directors

CONSOLIDATED INCOME STATEMENT AS AT 31 DECEMBER 2016 AND 2015

Euros

	Notes	2016	2015
Sales and Services Rendered	27 and 32	437,954,175	422,914,356
Cost of Sales		-209,694,892	-200,284,583
Change in Inventories		2,012,775	8,694,040
Third Parties Supplies	22.1	-120,937,441	-136,056,034
Management Fees	22.2	0	-10,736,698
Personnel Expenses		-83,459,897	-84,167,845
Costs with Contractual Terminations	22.3	-16,308,637	-2,354,535
Amortization and Depreciation	5 and 6	-9,039,648	-10,575,105
Provisions and Impairment of Assets	22.4	-2,029,128	-10,652,164
Other operational costs		-3,558,533	-3,248,271
Other operational gains	22.5	17,190,013	17,049,037
Operational Result		**12,128,785**	**-9,417,802**
Financial Losses	23	-7,310,618	-14,714,141
Financial Gains	23	223,090	3,772,695
Earnings before tax		**5,041,257**	**-20,359,248**
Income tax - Deferred	24	3,167,308	2,264,973
Income tax - Current	24	-3,223,311	-1,798,383
Discontinued operations results	4.4	-675,287	-605,165
Consolidated net income		**4,309,966**	**-20,497,823**
Attributable to:			
Shareholders of Efacec Power Solutions	25	**4,309,736**	**-20,391,472**
Minority interests		230	-106,352
Net earnings per share			
Basic		0.08	-0.42
Diluted		0.08	-0.42

Attached Notes hereafter are an integral part of the consolidated financial statements

The Consolidation Director

The Board of Directors

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AS AT 31 DECEMBER 2016 AND 2015

Euros

	2016	2015
CONSOLIDATED NET PROFIT (1)	4,309,966	-20,497,823
Other comprehensive income		
Items reclassifiable for results:		
Change in currency translation reserve	-3,162,641	-971,580
Change in the fair value of derivative financial instr.	-16,268	0
	-3,178,909	-971,580
Items not reclassifiable for results:		
	0	0
Other comprehensive income for the year	**-3,178,909**	**-971,580**
Tax on other Comprehensive Income		
Change in the fair value of derivative financial instr.	3,660	0
Change in excess valuation of fixed assets	0	0
Tax on Other Comprehensive Income	**3,660**	**0**
Other net comprehensive income for the year (2)	**-3,175,249**	**-971,580**
Total comprehensive income for the year (1)+(2)	**1,134,717**	**-21,469,404**
Attributable to:		
Shareholders of Efacec Power Solutions	1,151,880	-21,349,512
Minority interests	-17,163	-119,892

Attached Notes hereafter are an integral part of the consolidated financial statements

The Consolidation Director

The Board of Directors

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2016 AND 2015

Euros

	Attributable to Shareholders								
					Other Comprehensive Income				
	Share Capital	**Issue premium**	**Other Capital Instrum.**	**Reserves and Retained Earnings**	Revaluation Reserves	Translation Differences	**Other Comprehensive Income**	**Minority interests**	**Total Equity**
Balance as at 1 January 2015	**233,874,030**	**0**	**0**	**829,875**	**0**	**-136,602**	**-136,602**	**7,006**	**234,574,309**
Increase in Capital	52,000,000			0			0	0	52,000,000
Other equity instruments		8,000,000	35,900,000	0			0	0	43,900,000
Comprehensive income for the year				-20,391,472	0	-958,040	-958,040	-119,892	-21,469,404
Others				-332,791			0	10,327	-322,463
Balance as at 31 December 2016	**285,874,030**	**8,000,000**	**35,900,000**	**-19,894,387**	**0**	**-1,094,642**	**-1,094,642**	**-102,559**	**308,682,442**
Balance as at 1 January 2016	**285,874,030**	**8,000,000**	**35,900,000**	**-19,894,387**	**0**	**-1,094,642**	**-1,094,642**	**-102,559**	**308,682,442**
Comprehensive income for the year				4,309,736	-12,608	-3,145,248	-3,157,856	-17,163	1,134,717
Others				-671,318			0	1,754	-669,564
Balance as at 31 December 2016	**285,874,030**	**8,000,000**	**35,900,000**	**-16,255,969**	**-12,608**	**-4,239,890**	**-4,252,498**	**-117,968**	**309,147,595**

Attached Notes hereafter are an integral part of the consolidated financial statements

The Consolidation Director

The Board of Directors

CONSOLIDATED CASH FLOW STATEMENT AS AT 31 DECEMBER 2016 AND 2015

Euros

	Notes	2016	2015
OPERATING ACTIVITIES:			
Accounts receivable		481,726,460	488,267,472
Accounts payable		386,663,680	394,435,237
Paid to staff		92,736,174	84,946,867
Cash Flow generated by Activities		2,326,606	8,885,369
Payment / receipt of income tax		(2,810,171)	8,357,938
Other receipts / payments related to operating activities		9,981,727	(2,473,526)
Cash Flow from Operating Activities [1]		9,498,161	14,769,781
INVESTING ACTIVITIES			
INFLOWS:			
Financial investments		474,371	87,504
Investment subsidies		3,486,546	2,064,460
Interests and similar income		72,278	5,768,605
		4,033,196	7,920,569
OUTFLOWS:			
Financial investments		1,200	3,640,847
Tangible assets		1,828,272	3,577,395
		1,829,472	7,218,242
Cash flow from Investing Activities [2]		2,203,723	702,327
FINANCING ACTIVITIES			
INFLOWS:			
Obtained / granted current loans		18,975,744	243,340,818
Increase in capital, additional paid in capital and share issue premium		0	60,000,000
		18,975,744	303,340,818
OUTFLOWS:			
Obtained / granted current loans		30,352,275	300,450,097
Amortization of financial lease		149,666	23,477
Interests and similar expenses		9,440,529	8,094,686
		39,942,470	308,568,261
Cash flow from financing activities [3]		(20,966,727)	(5,227,443)
Change in cash and cash equivalents [D]-[A]-[B]-[C]=[1]+[2]+[3]		**(9,264,843)**	**10,244,665**
Impact of translation rates [A]		**181,384**	**(9,720)**
Impact of change in perimeter [B]		**0**	**2,492,869**
Cash and cash equivalents at the beginning of the year [C]		**38,108,319**	**25,380,505**
Cash and cash equivalents at the end of the year [D]	13	**29,024,861**	**38,108,319**

Attached Notes hereafter are an integral part of the consolidated financial statements

The Consolidation Director

The Board of Directors

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

A. GENERAL INFORMATION

Efacec Power Solutions SGPS, S.A. (“Efacec Power Solutions” or “EPS”) is a limited liability company with registered offices at Arroteia, Parish of Leça do Balio, Guifões and Custóias, Municipality of Matosinhos, Portugal. EPS was incorporated on August 14, 2014, having as object the management of shareholdings as an indirect form of performing economic activities. The incorporation of Efacec Power Solutions was part of the restructuring process that Efacec Capital, SGPS, S.A. (“Efacec Capital”) initiated from the end of 2013 in order to align the corporate structure of the Efacec Group with covered market segments and target geographies. At the end of 2014, Efacec Power Solutions became itself a group of companies that gather all the means of production, technologies and technological and human skills for the development of activities in the fields of Energy, Engineering, Environment, Transportation and Electric Mobility solutions. The EPS Group also covers a wide network of branches and agents across 4 continents.

On 23 October 2015, the EPS Group experienced a change in its shareholder structure, the majority of the capital of Efacec Power Solutions being held by the company Winterfell 2 Limited (“Winterfell 2”).

The activities of the EPS Group companies include an extensive range of products with high technological level. This diversity, with skills at production and engineering levels, enables it to provide technical solutions to a very wide range of business sectors, in domestic and foreign markets.

These financial statements were approved by the Board of Directors on 27 March 2017. The Board Directors who sign this report declare that, to the best of their knowledge, the information contained herein was prepared in accordance with International Financial Reporting Standards (IFRS) adopted by the European Union, which give a true and fair view of the EPS Group consolidated financial statement, results and cash flows.

The financial information is expressed in euros, which is the functional and reporting currency of the Group entities, unless otherwise stated.

B. ACCOUNTING POLICIES

1. SUMMARY OF THE PRINCIPAL ACCOUNTING POLICIES

The accounting policies used are in accordance with International Financial Reporting Standards (IFRS) in force during each financial year. They are disclosed in subsequent notes, that have been applied by Efacec Power Solutions since its incorporation, and have also been applied consistently, every year, by the subsidiaries. Nevertheless, standards, interpretations and revisions issued by the various bodies that oversee the implementation of International Financial Reporting Standards - IASB, IASC, SIC and IFRIC, when applicable to the EPS Group, are adopted during the period they become mandatory.

In 2016, the EPS Group changed the accounting policy for costs with bank guarantees of financial nature. In order to better reflect the nature of these expenses, the commissions paid to financial institutions relating to guarantees issued regarding the advance payments from beneficiary clients, or guarantees on contractual retention values, are, by their nature, recognized in the income statement under the caption “financial costs”. The impacts on the 2015 consolidated financial statements are not material, and therefore the 2015 accounts have not been restated.

1.1 BASIS OF PREPARATION

The consolidated financial statements of Efacec Power Solutions were prepared in accordance with International Financial Reporting Standards (IFRS) in force since 1 January 2016, as adopted by the European Union.

The consolidated financial statements have been prepared taking into account the historical cost convention, except for land, financial assets and financial liabilities, (including derivatives instruments) which are recorded at their fair value. Additionally, production equipments located in industrial facilities in Portugal are also recorded at the fair value, as a result of the valuation made within the acquisition of financial investments in the incorporation process of EPS (refer to Note 6.1).

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of some important accounting estimates. It also requires that the Governing Bodies practice their judgment in the process applied to the accounting policies of the EPS Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

The standards, interpretations and revisions issued by the different bodies that oversee the implementation of International Financial Reporting Standards - IASB, IASC, SIC and IFRIC - are listed below, together with the date of application and approval by the European Union.

Description	Changes	Effective date
1. EFFECTIVE AMENDMENTS TO STANDARDS AS AT 1 JANUARY 2016		
IAS 1 – Presentation of financial statements	Review of disclosures under the “Disclosure initiative” IASB project	01/01/2016
IAS 16 and IAS 38 - Acceptable methods of depreciation / amortisation	Clarification that revenue based methods should not be used to measure the consumption of fixed and intangible assets’ economic benefits	01/01/2016
IAS 16 and IAS 41 – Agriculture: bearer plants	Bearer plants are included within the scope of IAS 16, measured either at cost or revaluated amounts	01/01/2016
IAS 19 – Defined benefit plans	Accounting for contributions independent of years of service	01/02/2015
IAS 27 – Separate financial statements	Option to measure investments in subsidiaries, joint ventures and associates using equity method	01/01/2016
IFRS 11 – Joint arrangements	Accounting for acquisition of interest in a joint operation that is a business	01/01/2016
Amendments to IFRS 10, 12 and IAS 28: Investment entities - applying consolidation exception	Investment entities’ exemption applies to an intermediate parent that is a subsidiary of an investment entity	01/01/2016
Annual improvements to IFRS's 2010 – 2012	Clarifications: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 24	01/02/2015
Annual improvements to IFRS's 2012 – 2014	Clarifications: IFRS 5, IFRS 7, IAS 19 and IAS 34	01/01/2016
2. STANDARDS THAT WILL BECOME EFFECTIVE, ON OR AFTER 1 JANUARY 2017, ALREADY ENDORSED BY THE EU		
IFRS 9 – Financial instruments	New standard for the accounting of financial instruments’	01/01/2018
IFRS 15 – Revenue from contracts with customers	Revenue recognition for the provision of goods or services, following a five step approach	01/01/2018

Description	Changes	Effective date
3. STANDARDS (NEW AND AMENDMENTS) AND INTERPRETATIONS THAT WILL BECOME EFFECTIVE, ON OR AFTER 1 JANUARY 2017, NOT YET ENDORSED BY THE EU		
3.1 Standards		01/01/2017
IAS 7 – Cash flow statement	Reconciliation of changes in financing liabilities with Cash flows for financing activities	01/01/2017
IAS 12 – Income taxes	Accounting for deferred tax assets on assets measured at fair value, the impact of deductible temporary differences in future taxable income estimates and the impact of restrictions on the recoverability of deferred tax assets	01/01/2018
IAS 40 – Investment property	Clarification that evidence of the change in use is required, when assets are transferred to, or from investment properties category	01/01/2018
IFRS 2 – Share-based payments	Measurement of cash-settled share-based payments, accounting for modifications and classification as equity-settled share-based payments when employer withholds tax	01/01/2018
IFRS 4 – Applying IFRS 4 with IFRS 9	"Temporary exemption for insurance companies only, from applying IFRS 9 for annual periods beginning before 1 January 2021 Overlay approach for assets within IFRS 4 that qualify as FVTPL under IFRS 9 and at amortised cost under IAS 39, being the measurement difference reclassified to OCI."	
Amendments to IFRS 15 - Revenue from contracts with customers	Identification of performance obligations, timing of revenue recognition from licenses of IP, change to principle versus agent guidance, and new practical expedients on transition	01/01/2018
IFRS 16 – Leases	New definition of lease. New accounting of lease contracts to lessees. No major changes to lessors lease accounting	01/01/2019
Annual improvements to IFRS's 2014 - 2016	Clarifications: IFRS 1, IFRS 12 and IAS 28	01-01-2017 /01-01-2018
3.2 Interpretations		
IFRIC 22 – Foreign currency transactions and advance consideration	Foreign exchange rate to apply when consideration is paid or received in advance	01/01/2018

The EPS Group is analyzing possible impacts of adopting these standards, but they are not expected to be significant.

1.2 CONSOLIDATION

1.2.1 SUBSIDIARIES

Subsidiaries are all entities (including Special Purpose Entities) over which the EPS Group has the power to govern the financial and operating policies generally represented by more than half of the voting rights. The existence and effect of potential voting rights, either currently exercisable or convertible, are taken into consideration when assessing whether the EPS Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the EPS Group. They are de-consolidated from the date that control ceases.

The purchase method is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured by the fair value of the assets, equity instruments issued and liabilities incurred or assumed on the date of acquisition, plus all costs directly attributable to the acquisition. Identifiable assets acquired and contingent liabilities assumed in a business combination are measured initially at their fair values on the date of acquisition, regardless of the existence of any minority interest. The excess of acquisition cost plus the share of minority interests over the fair value of acquired assets and liabilities, or alternatively, increased by the fair value of minority interests share in the acquired subsidiary, in relation to the fair value of the total net assets and liabilities of the acquired subsidiary, is recorded as goodwill (note 1.5.1). If the cost of acquisition is less than the fair value of the net assets of the acquired subsidiary, the difference is recognized directly in the Income Statement.

Transactions, balances and gains that were not realized with transactions carried out between companies of the EPS Group are written of. Unrealized losses are also eliminated, except if the transaction reveals evidence of impairment of a transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the EPS Group.

The amount concerning minority interests is included in Equity. Transactions with “minority interests” are recorded in Equity, when there is no change in the control over the Entity, meaning that goodwill or gains or losses are not recorded. When there is a loss of control over the entity, any interest resulting from the entity is re-measured to the fair value, meaning that the gain or loss is recognized in the results of the financial year.

The list of subsidiaries included in the scope of consolidation is shown in Note 4, as well as changes to the perimeter verified in the financial year.

1.2.2 ASSOCIATES

Associates are all entities over which the EPS Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted by using the equity method and are initially recognized at cost. The EPS Group’s investment in associates includes the goodwill (deducted from accumulated impairment losses) identified on acquisition (see Note 1.5.1).

The EPS Group’s share in associates’ post-acquisition profits and losses is recognized in the Income Statement, and its share of post-acquisition movements in reserves is recognized in reserves as counterpart of the financial investment’s book value. When the EPS Group’s share in losses of an associate equals or exceeds its investment in the associate, including any other unsecured receivables, the EPS Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

If the cost of acquisition is less than the fair value of the net assets of the acquired associates, the difference is recognized directly in the Income Statement.

The goodwill identified on acquisition of associates, deducted from accumulated impairment losses, is recorded under the heading “Investments in Associates”.

An evaluation of investments in associates is triggered whenever there are signs that the asset could be impaired. Impairment losses are recorded as costs under the same item. When impairment losses recognized in previous periods cease to exist, they are reversed, with the exception of goodwill.

Unrealized gains on transactions between the EPS Group and its associates are eliminated to the extent of the EPS Group’s interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of Associates have been changed where necessary to ensure consistency with the policies adopted by the EPS Group.

1.2.3 JOINT VENTURES

The accounting international standard IFRS 11 describes jointly controlled investments as joint-operations or as joint-ventures, which are mainly distinguished by:

- Existence or not of a separate vehicle body
- Unanimity required in decision-making
- Ownership of assets / liabilities and income / costs

In 2014, the EPS Group adopted the IFRS.11, and held a case-by-case analysis of the contracts of all entities with which it maintains interests. In the cases where the clusters were classified as joint operations, their accounts have been integrated line-by-line in proportion to the equity holding in each of them; where the clusters were considered joint ventures, investment is recorded at cost.

1.2.4 TRANSACTIONS POLICY BETWEEN ENTITIES UNDER JOINT CONTROL

There are no accounting policies set out in international standards for transactions between entities under common control, where the parent company retains control of the transferred subsidiary before and after the transactions are realized. In its absence, the management takes into account the requirements and guidelines of other standards that address similar issues, having opted for the purchase method of IFRS 3R, this legislation being fully implemented (see Note 1.2.1).

1.3 FOREIGN CURRENCY EXCHANGE

1.3.1 FUNCTIONAL AND PRESENTATION CURRENCY

Items included in the Financial Statements of each of the EPS Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Consolidated Financial Statements are presented in Euro, which is the company's functional and EPS Group's presentation currency.

Currency exchange differences arising from operating activities of the EPS Group are recorded in the income statement as expenses or operating income. If exchange differences are due to financial operations, they are recorded as financial results.

1.3.2 BALANCES AND TRANSACTIONS

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Income Statement.

1.3.3 GROUP COMPANIES

The results and the financial position of all the EPS Group's entities (none of which has currencies of a hyper-inflationary economy) which have a functional currency different from the presentation currency are translated into the presentation currency as follows:

i) Assets and liabilities for each presented Consolidated Financial Position Statement are translated at the exchange rate in force on the date of the Financial Statements;

ii) Income and expenses for each Income Statement are translated at average Exchange rates; and

iii) The exchange differences arising on translating the individual financial statements of the companies included in the consolidation are recognized in Equity, under in the heading «Reserves».

1.4 TANGIBLE ASSETS

Land and buildings consist primarily of factories and offices. Land is stated at fair value based on at least three-year periodic reviews, performed by independent external evaluators. Other tangible assets are stated at historical cost, less depreciation, including all expenditures directly attributable to the acquisition of property. Following the acquisition of companies by Efacec Power Solutions, industrial equipments were revalued.

Subsequent costs are included in the carrying amount or recognized as a separate asset, as appropriate, only when it is probable that economic benefits will flow to the company and the cost can be measured reliably. The other repairs and maintenance costs are recognized as expenses in the period they incur.

According to accounting policies of the EPS Group for determining the fair value, land is subject to triennial evaluations by independent experts. Evaluations rely on using the criteria of market comparison and substitution costs. Revaluations are recognized in equity, net of the related deferred tax. Depreciations, if any, are deducted from equity within the limits of the revaluation reserves existing for the same assets. Profit is recognized through the excess of that limit.

When tangible assets recorded at fair value are disposed, the amount included in revaluation reserves is transferred to retained earnings.

Land is not depreciated. Depreciation of other assets is calculated by the straight-line method, on a monthly basis on the cost or revaluation, in order to allocate their cost or revalued amount to their residual value, depending on their estimated useful lives, as follows:

Item	Years
Land	-
Buildings and other construction	25 – 50
Plant and Equipment	8 – 16
Vehicles	4 – 5
Tools and Utensils	4 – 8
Office Equipment	4 – 6

The depreciation process starts in the month following the month in which the asset is brought into operation.

Assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the closing date of financial statement. If the carrying amount exceeds the recoverable amount of the asset, it is immediately adjusted to the estimated recoverable amount (Note 1.6).

Gains and / or losses on disposals and write-offs are determined by the difference between their carrying amount and value of sale or write-off, being in the latter case null and included in Income for the period.

1.5 INTANGIBLE ASSETS

1.5.1 GOODWILL

Goodwill represents the excess of the cost of an acquisition over the fair value of the identifiable assets and liabilities from the subsidiary on the date of acquisition (Note 1.2), being included in the respective item of the consolidated financial statement. Goodwill resulting from the acquisition of associate companies integrates the item "Financial Investments in Associates".

Goodwill is subject to impairment tests on an annual basis and is stated at cost, less accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the same.

Goodwill and fair value adjustments arising from the acquisition of a foreign entity are treated as assets and liabilities of the entity and translated at the closing rate, if the functional currency is other than the euro.

Goodwill is allocated to cash flow generating units (CGU) to perform impairment tests (Note 2.1). The recoverable amount of a CGU is determined based on the value used in calculations. These calculations use cash flow projections based on financial budgets approved by the management, covering a period of at least 4 years. Under certain conditions, some CGU can be grouped, when there is a high level of business dependence on one or more CGU in respect of another integrator CGU, with respect to technical, financial, commercial, or the ability to hire new business with the its customers.

EPS Group's Governing Bodies determine the budgeted operating margin based on past performance and its expectations for market development. The weighted average growth rate used is consistent with the forecasts included in industry reports. The discount rates used are before taxes and reflect specific risks relating to the relevant segments.

1.5.2 SOFTWARE

The acquisition cost of software licenses is capitalized and includes all costs incurred in acquiring and putting the software available for use. These costs are amortized over the estimated useful life (not exceeding 5 years). The costs associated with the development or maintenance of software are recognized as expenses when incurred.

Costs directly associated with the production of identifiable and unique software controlled by the Group and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include personnel costs employed in software development and the share of relevant costs. Development costs of software recognized as assets are amortized over their estimated useful lives (not exceeding 5 years).

1.5.3 RESEARCH AND DEVELOPMENT EXPENSES

Expenditure on research is recognized as an expense when incurred. Costs incurred on development projects (relating to the design or test of new products and enhancements on existing products) are recognized as intangible assets when it is probable that the group will obtain economic benefits, considering its commercial and technological feasibility, and costs can be measured reliably. Other expenditures for development are recognized as expenses when incurred. Development costs previously recognized as an expense are not recognized as an asset in subsequent periods. Development costs with a set useful life that have been capitalized are amortized from the start-up of commercial production of the product on a straight-line basis over the period of its expected benefit, not exceeding five years.

1.6 IMPAIRMENT OF NON-FINANCIAL ASSETS, EXCEPT GOODWILL

Assets that have an indefinite useful life are not subject to amortization but are the object of annual impairment tests. Assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the value at which they are accounted may not be recoverable. An impairment loss is recognized for the amount of the excess of the carrying amount of the asset to its recoverable amount. The recoverable amount is the higher between the fair value of an asset less costs to sell and value in use. When determining the value in use, the estimated future cash flows are discounted using a discount rate that reflects the current market reviews and specific risk of the asset.

For carrying out impairment tests, assets are grouped at the lowest levels for which it is possible to identify separately cash flows (units generating cash flows).

1.7 FINANCIAL ASSETS

1.7.1 RATING

The EPS Group classifies its financial assets according to the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity and financial assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) **Financial assets at fair value through profit or loss**
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also classified under this category unless designated for hedging. Currently, the EPS Group has no such financial assets.

b) **Loans and Receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans granted and receivables are classified as current assets, except for maturities greater than 12 months after the closing date of the financial year, in which case these are classified as non-current assets.

c) **Financial assets held to maturity**
Currently, the EPS Group has no financial assets held to maturity.

d) **Financial assets available for sale**
Financial assets available for sale (Note 9) are non-derivative financial assets that are not essential to the continued operation of the EPS Group. These financial assets are classified as non-current, unless the assets expire or if management intends to sell them within 12 months after the reporting date.

1.7.2 RECOGNITION AND MEASUREMENT

Purchases and sales of financial assets are recognized on trade date - the date on which the EPS group commits itself to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs, unless classified at fair value through profit and loss. Financial assets at fair value through the income assets are initially recognized at fair value and their transaction costs recorded in the income statement. Financial assets are derecognised when the rights to receive their cash flows expire, or at the time the risks and benefits of ownership are transferred. Financial assets available for sale and financial assets at fair value through the income assets are subsequently measured at fair value. Loans and receivables are subsequently measured at amortized cost using the method of effective interest rate.

Gains or losses arising from changes in fair value of financial assets classified under the category of fair value through profit or loss, are recorded in the Income Statement as “Financial Costs” in the period in which they occur.

Customer’s account receivables and other debtors are initially recognized at their nominal value or fair value, if different, less any impairment loss.

Customer’s amounts receivable are derecognized when, substantially, transferred to another entity all the significant risks and rewards associated with the cash flows of the financial asset benefits. If the entity retains its exposure to the total variability in the present value of future net cash flows associated with the financial asset, there is not a de-recognition of the asset.

When securities classified as available for sale are sold or impairment is recorded, the cumulative value of adjustments to fair value recognized in fair value reserves is recognized in the income statement as “Gains or losses in other companies”.

Interest on securities account classified as available for sale are calculated using the effective interest method, and recognized in the income statement under the heading “Other income”.

Dividends of shares available for sale are recognized in the income statement upon the determination of the right to them by the Group.

1.7.3 PRESENTATION BY NET VALUE

Financial assets and liabilities are presented in the financial statement on a net basis when there is a legal right to compensate them for this value, as well as the intention to do so.

1.7.4 IMPAIRMENT OF FINANCIAL ASSETS

a) **Loans and receivables**
The adjustment for impairment of account receivables is established when there is objective evidence that the EPS Group did not receive all amounts due according to the original terms of receivables. The adjustment amount is the difference between the displayed value and the present estimated value of future cash flows, discounted at the effective interest rate. The adjustment value is recognized in the income statement.

b) **Assets carried at amortized cost**
The EPS Group assesses at each date of its Financial Statement whether a financial asset or group of financial assets is impaired. If financial asset or group of financial assets is impaired, impairment losses are recorded only when there is objective evidence thereof as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that such an event (or events) has an impact on the estimated future cash flows produced by the asset or group of assets that can be reliably estimated.

The criteria used by the EPS group to determine whether there is objective evidence of an impairment loss include:

- Significant financial difficulties of the issuer or debtor;
- Breach of contract provisions, such as payment of interest or capital;
- The possibility that the borrower will file bankruptcy or financial restructuring;
- The disappearance of an active market for the financial asset in question for reasons of financial distress, or
- Observable data, indicating a measurable decrease in the estimated future cash flows from a portfolio of financial assets, having this decrease occurred after the initial recognition of those assets, but still not being attributed to individual financial assets. These data include:

  iii) Adverse state of those portfolio debtors in meeting payments, and

  iv) National or local economic conditions that correlate with failure to pay for the assets in the portfolio.

The amount of the loss is measured as the difference between the value at which the asset is measured and the current estimate of future cash flows (excluding future credit losses that have not been registered) discounted at the effective interest rate. The value to which the asset is measured is reduced, and the amount of the loss is recognized in the consolidated income statement. As a practical expedient, the Group EPS can measure the amount of impairment based on the fair value of the instrument, using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively attributed to an event occurring after the impairment was recorded (such as improved credit rating of the debtor), then the previously recognized impairment is reversed in the consolidated income statement.

e) Assets classified as available for sale

The EPS Group analyses at each date of its financial statement whether there is objective evidence that a financial asset or group of financial assets is impaired. For debt securities, it is used the criteria described above in (a). In the case of equity instruments of other entities classified as available for sale, a significant or prolonged decline in the fair value of shares relative to their costs also constitute evidence of impairment. If such evidence exists for assets available for sale, the cumulative loss - measured as the difference between the acquisition cost and the fair value at date, less any impairment loss previously recognized through profit and loss account for the financial asset in question - is removed from equity and recognized in the consolidated income statement. Impairment losses recognized in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. If, in a subsequent period, the fair value of a debt security rated available for sale increases and the increase can be objectively attributed to an event occurring after the impairment loss was recognized in the income, then the impairment loss is reversed through the consolidated income statement.

Financial investments in Group's companies that were excluded from the consolidation and other shareholdings are stated at acquisition cost.

The EPS Group first examines whether there is evidence of impairment of any financial investment. If there is such evidence, the accumulated loss, calculated by the difference between the balance sheet value and the current fair value, is recognized in the income statement of the period in which the impairment is verified.

1.8 ACCOUNTING FOR FINANCIAL INSTRUMENTS - DERIVATIVES AND HEDGING

Derivatives are initially recognized at fair value at the date in which their contractual arrangements take part, being subsequently measured at fair value. The method by which the changes in fair value are recognized depends on the designation (or not) of this derivative as a hedging instrument and, in the case of so being appointed, the nature of the hedged item. The Group designates certain derivatives as: (1) hedges of the fair value of assets, liabilities or firm commitments recognized (fair value hedge), (2) hedging of a particular risk associated with an asset, liability or a highly probable transaction (hedging of cash flows).

For each transaction, and at its origin, the EPS Group prepares documentation justifying the relationship between the hedging instrument and the hedged item, as well as the risk management objective and strategy for hedging transactions, being also documented either on the trade date of hedging, or on a continuous basis, its analysis of the effectiveness with which the hedging instrument offsets changes in fair value or cash flows of the hedged instruments. In accordance with IAS 39, the fair value of option Type derivatives is separated in its intrinsic value and its time value, given that only the intrinsic value of these instruments may be designated as a hedging instrument. Thus, tests of validity of the derived type option only include the intrinsic value of these instruments.

The fair value of derivatives used for hedging purposes, when they exist, is disclosed in proper Note. Movements in the hedging reserve are shown in the consolidated statement of changes in equity. The full fair value of a hedging derivative is classified as non-current asset or liability when the remaining maturity of the hedged instrument is greater than 12 months and as a current asset or liability when it is less than 12 months. Trading derivatives are classified as current assets or liabilities.

1.8.1 FAIR VALUE HEDGE

Changes in fair value of derivatives that are assignable and classified as fair value hedge instruments are recognized in the income statement together with changes in the fair value of the assets or hedged liabilities attributable to the hedged risk.

If the hedging relationship ceases to meet the criteria for hedge accounting, then the adjustment to the carrying amount of the hedged item, for which is used the effective rate method, is amortized over the period extending until maturity.

1.8.2 COVERAGE OF CASH FLOWS

The effective amount of the change in fair value of derivatives assignable and classified as cash flow hedges is recognized in equity. The gain or loss relating to the ineffective amount of the loss is immediately recognized in the income statement.

Amounts accumulated in equity are subsequently recognized in the income statement in the period in which the instrument affects the income statement (for example, when a transaction of a forecasted hedged sale occurs). The gain or loss on the value of interest rate swaps, to cover variable rate loans is recognized in the income statement as “Net financial costs”. The gain or loss relating to the effective amount of derivatives exchange rate is recognized in the income statement as “Net financial costs”. The gain or loss relating to the effective amount of derivatives on the price of commodities is recognized in the income statement as “Cost of goods sold and materials used”. The gain or loss on the ineffective amount is recognized in the income statement as “Net financial costs”.

When a hedging instrument reaches maturity, when it is sold, or when a hedge no longer meets the requirements for hedge accounting, any cumulative gain or loss recorded in registered capital will remain that way, being recognized in the income statement when the forecast transaction also is. When the occurrence of the forecasted transaction is no longer probable, the cumulative gain or loss recorded in equity is immediately transferred to the income statement as financial income or costs.

1.8.3 DERIVATIVES NOT QUALIFIED FOR HEDGING

Certain derivatives do not meet the hedging criteria. Changes in their fair value are recognized immediately in the income statement as financial income or cost.

1.9 INVENTORIES

Inventories are recorded at the lowest of cost between the cost and the net realizable value. With regard to raw materials, the cost correspond to the acquisition cost. With regard to finished goods and products under manufacture (Note 12), the cost is calculated using the standard cost (that does not deviate significantly from the actual cost of production), and the cost of these products includes raw material costs, labour, direct labour, other direct costs and general expenses of production (based on normal production capacity). The costs of loans obtained are not considered.

The cost of inventories includes the equity transfer of any gain or loss classified as cash flow hedges related to the purchase of raw materials.

Net realizable value is the estimated selling price in the ordinary course of business, less variable selling costs.

1.10 CASH AND CASH EQUIVALENTS

The item 'Cash and cash equivalents' includes cash, bank deposits and other short-term investments with high liquidity and with initial maturities of 3 months. Bank overdrafts are presented in the consolidated financial statement in the current liabilities, under the heading "Loans".

1.11 EQUITY

Ordinary shares are classified as equity.

Additional costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, of capital inflows.

1.12 DEBTS TO FINANCIAL INSTITUTIONS AND RELATED PARTIES

Loans obtained are initially recognized at their nominal value or fair value, if different, less any loss for impairment. Loans are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the amortized value is recognized in the income statement over the period of the loan using the effective interest method.

Loans obtained are classified as current liabilities unless the EPS Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of the financial statement closing date.

Interests and other financial charges related to loans are generally recognized as expenses in accordance with the accrual accounting principle.

Interests and other financial charges on loans, which are directly related to the acquisition, construction or production of fixed assets, are capitalized as part of the cost of the asset. The capitalization begins after the start of preparation of the construction or development of the asset and stops when the asset is ready for use or when the project is suspended. Any income earned on loans, directly related to a specific investment is deducted from financial costs eligible for capitalization.

1.13 PAYABLES TO SUPPLIERS AND OTHER CREDITORS

Payables to suppliers and other creditors are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The suppliers' bills are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, the suppliers' bills are presented as non-current liabilities.

1.14 INCOME TAX AND DEFERRED TAXES

Efacec Power Solutions and its national subsidiaries are subject to the Tax Consolidation Regime (RETGS) applicable to groups that include companies in which they hold shares of 75% or above and which comply with the conditions of Article 63 of the Corporate Income Tax Code. The consolidated tax is determined by the arithmetic sum of the taxable gains and losses as determined by each company on an individual basis.

Income tax include current tax and deferred tax, and it is obtained by the sum of tax estimates calculated by the companies forming the EPS Group.

Current tax is calculated based on current tax law, or substantially prevailing at the date of the financial statement in countries where the subsidiaries and associates operate and generate taxable income. The management of the Group periodically reviews its analysis in this area and recognizes provisions for probable tax contingencies for cases under review, as well as possible adjustments made by tax authorities. These provisions are recorded at the amount expected to be paid to the tax authorities.

Deferred tax is calculated based on the value of temporary differences between the carrying amounts of assets and liabilities and their tax base. However, deferred tax is not recorded if it occurs from the initial recognition of an asset or a liability in a transaction, which does not constitute a business combination that at the time of the transaction does not affect the income and costs, not accounting or not taxable. Deferred tax is determined in the light of current legislation and rates, or substantively in force at the reporting date, and are expected to apply when performing the deferred tax asset or settlement of the deferred tax liability.

Deferred tax assets are recognized only when the existence of future taxable income is expected, under which the temporary difference can be utilized.

Assets and deferred tax liabilities are presented in the financial statement at net value when there is a legally enforceable right to offset current assets and deferred tax liabilities by this amount, and where assets and deferred tax liabilities relate to taxes on income levied by the same taxation authority on the same taxable entity or different entities when there is an intention to settle the amounts on a net basis.

Deferred taxes are classified as non-current, as shown in the financial statement.

1.15 PROVISIONS

Provisions are measured at fair value of the costs that are expected to occur in order to settle the obligation using a pre-tax rate that reflects the time value of money, as well as specific risks to the liability, as assigned by market. Provisions are not recognized for future operating losses.

The EPS Group recognizes provisions for onerous contracts when the costs to be incurred to meet the contractual obligations exceed the economic benefits estimated, contract by contract, according to estimates of the responsible staff for works / projects.

1.16 RECOGNITION OF REVENUE

Revenue comprises the fair value of sales of goods and services, net of taxes and trade discounts, and after elimination of internal sales.

Revenues are recognized at fair value of the amount received or receivable for the sale of goods and services in the ordinary course of business of the EPS Group. Revenues are recognized at net value of the amount of value added tax, returns and discounts and after intra-group revenues have been eliminated.

The EPS Group recognizes revenue when the amount can be measured reliably, when it is probable that future economic benefits give input on the entity and when specific criteria are met for each of the its activities as described below. The EPS Group bases its estimates on historical results, taking into consideration the type of customer, as well as the transaction type and its characteristics.

1.16.1 SALES

The recognition of revenue occurs when the product is delivered and accepted by the customer and when the payment of the related accounts receivable is reasonably assured.

1.16.2 PROVISION OF SERVICES

The provision of services is recognized in the accounting period in which the services are provided and invoiced.

1.16.3 MULTI-YEAR CONTRACTS

Revenues from contracts arising for periods exceeding one year are accounted for under the percentage of completion method, with reference to the costs incurred, partial delivery or another approach to the reliable estimation of the costs of completion of the work. When it is not possible to make a reliable estimate of the revenues and costs, revenues are recognized when the product is delivered to the customer. In this case, the costs incurred until delivery are recorded in 'Inventories - Products and Works in progress'.

When the amount invoiced to the customer is greater than what was determined by the percentage of completion method, deferred revenue is recognized, representing a liability to the client on the work to be performed, which is recorded under "Deferred income - Deferred invoicing". When the amount invoiced to the customer is lower than that determined by the percentage of completion method, an accrual is recognized under "Accrued income".

Costs of contract include raw materials and direct materials, direct labour and also indirect costs distributed as specified in the contract. Sales and administrative expenses are recorded as costs as they occur. Provisions are recorded in the income statement for any foreseen losses on completing a contract within the period in which they are determined, being immediately recognized in the income statement.

Changes to contracts or cost estimates and forecast costs and / or revenues and margins, resulting from the renegotiation of the conditions with customers or from internal productivity, are recognized in the income statement in the period in which they occur and taking into account the stage of completion.

Materials specific to the contracts which have not been used or installed, are shown under 'Inventories - products and work in progress'.

1.17 LEASES

Leases are classified as operating leases if a significant portion of the risks and rewards of ownership is retained by the lessor. Payments for operating leases are charged to the income statement at the time of their settlement.

Leases of tangible assets, where the Group has substantially all the risks and rewards of ownership, are classified as financial leases. Financial leases are capitalized at the lease's commencement at the lowest value between the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the outstanding liability and finance charges so as to achieve a constant rate on the outstanding debt. Lease obligations, net of finance charges, are included under Suppliers. This interest is driven to financial expenses in the period of the lease so as to produce a constant periodic rate of interest on the remaining debt in each period. The tangible assets acquired through finance leases are depreciated over the shortest of the useful life of the asset or the lease term.

1.18 GRANTS

Grants received are recognized at their fair value when there is a reasonable possibility that the grant will be received and the EPS Group will comply with all attached conditions.

Grants received in order to compensate the EPS Group for investments in tangible and intangible assets are included in liabilities as deferred income and are credited to the income statement proportionally to the useful life of the related assets.

Grants received to compensate its incurred costs are recorded in the income statement on a systematic basis over the periods in which the costs they are intended to compensate are recognized.

1.19 DISTRIBUTION OF DIVIDENDS

The distribution of dividends to shareholders is recognized as a liability in the consolidated financial statements of the EPS Group in the period in which the dividends are approved by the shareholders at the General Meeting.

1.20 DISCONTINUED OPERATIONS

A discontinued operation is a component of an entity that was either written off or classified as held-for-sale or liquidation and (a) represents a significant line of business or geographical area of operations; (b) or is part of the restructuring process of a business area or geographical area of operations.

Discontinued operations (or disposal groups), are classified as held-for-sale if their value is realizable through a sale transaction rather than through their continued use. This situation is deemed to arise only when: (i) the sale is highly probable and the asset is available for immediate sale in its present condition; (ii) the Group has given an undertaking to sell; and (iii) it is expected that the sale will be finalized within 12 months. In this case, non-current assets are valued at the lower of their book value or their fair value less the sale costs.

1.21 EMPLOYEE BENEFITS

1.21.1 RETIREMENT PENSIONS

The majority of Efacec's employees is only covered by the social security system.

There is a closed group of former retired employees that benefits from complementary retirement or survivor's pension, which are managed by the EPS Group. The future liability for these payments is presented in the financial statement under the item 'Provisions' (Notes 19 and 30.2) and corresponds to the current benefits' responsibilities value defined on the balance sheet date. The assessment of responsibility is carried out annually by specialized independent entities.

In subsidiaries based abroad, employees are either covered only by local social security systems or can benefit from complementary systems, established according to the local laws and conditions.

Re-measurements (gains and losses) arising from changes in demographic and financial actuarial assumptions are recorded in "Other Comprehensive Income".

A defined benefit asset is only recognized to the extent that a cash refund or a reduction in future payments is available.

1.21.2 VARIABLE REMUNERATION

Variable remunerations paid to employees are recorded, where they exist, in the income statement for the year to which they relate, under "Staff Costs".

1.22 CONTINGENT ASSETS AND CONTINGENT LIABILITIES

Contingent liabilities for which an outflow of resources embodying economic benefits is only possible, are not recognized in the financial statements but disclosed in the notes, unless the possibility of the outflow of resources embodying economic benefits is remote, in which case they are not subject to disclosure. Provisions for liabilities that meet the conditions laid down in Note 1.15 are recognized.

Contingent assets are not recognized in the consolidated financial statements but are disclosed in the Notes to the financial statements when a future economic benefit is probable.

1.23 CASH FLOWS STATEMENT

The statement of cash flows is prepared in accordance with the direct method. The EPS Group classifies assets with maturity of less than three months and for which the risk of change in value is insignificant under "Cash and cash equivalents".

The Cash Flow statement is divided into operating activities, investment activities and financing activities. Operating activities include cash received from customers and payments to suppliers, staff and other payments related to operating activities.

Cash flows included in investment activities include acquisitions and disposals of investments in subsidiaries, received cash and payments resulting from the purchase and sale of tangible and intangible assets.

Financing activities include cash received and payments relating to equity and loans, including bank overdrafts. They also include payments relating to interests, dividends and finance leases.

1.24 SUBSEQUENT EVENTS

Events subsequent to the balance sheet date that provide additional information about conditions existing on that date are reflected in the consolidated financial statements. Events subsequent to the balance sheet date, which provide information on conditions that arose after that date, are disclosed in the annex to the consolidated financial statements, if material.

2. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements requires the EPS Group's management to make judgments and estimates that affect the reported amounts of revenues, costs, assets and liabilities and disclosures at the date of the balance sheet.

These estimates are determined by the judgments of the EPS Group's management, based on: (i) the best information and knowledge of present events and in some cases, on the reports of independent experts, and (ii) the actions that the EPS Group considers it may have to take in the future. However, at the date on which the operations are carried out, the results may differ from these estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next exercises are presented below.

2.1 IMPAIRMENT OF GOODWILL

For analysis purposes, each year, the EPS Group tests whether goodwill has suffered any impairment, recorded in the financial statement in accordance with the accounting policy defined in Note 1.6. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. Those calculations require the use of estimates (Note 7).

2.2 INCOME RECOGNITION

The EPS Group uses the percentage of completion method in accounting for revenue from its multi-year contracts. The use of the percentage of completion method requires the formulation of estimates on the degree of construction and services performed to date, as a proportion of the total construction and the services to be performed. Management exercises judgment in determining whether the outcome of a contract can be estimated reliably. Management also makes estimates of the total cost of services, or in some cases, of the total contract costs, which are used in determining the recoverable amount of the contracts. The estimates are continually revised based on changes and information relating to each contract.

2.3 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

To determine the fair value of a financial asset or liability where an active market exists, the market price is used. Where there is no active market, which is the case with some of the assets and liabilities of the EPS Group, valuation techniques generally accepted in the market, based on market assumptions, are used.

The EPS Group uses valuation techniques for unlisted financial instruments such as derivatives, financial instruments at fair value through profit or loss and assets available for sale. The valuation methods, which are used most often, are based on models of discounted cash flow and options, including, for example, interest rates, exchange rates, prices of raw materials and volatility curves.

2.4 INCOME TAXES

The EPS Group recognizes liabilities for additional taxes that may result from inspections undertaken by tax authorities. When the final outcome of these situations is different from those initially recorded, the differences will impact income tax and deferred taxes, during the time in which such differences are identified.

Additionally, the EPS Group recognizes deferred tax assets on income tax losses carried forward to the extent that future taxable profits will be available. This assessment requires the use of estimates and the future taxable profits could be different from the assessment done on each balance sheet date. The difference will impact the income tax.

2.5 RECOGNITION OF PROVISIONS

The EPS Group periodically reviews the obligations arising from past events that should be recognized or disclosed. The subjectivity involved in determining the probability and amount of internal resources required to meet obligations may give rise to significant adjustments either due to changes in the assumptions made, or due to the future recognition of provisions previously disclosed as contingent liabilities.

Management exercises significant judgment in determining whether there is a present obligation as a result of a past event, or whether it is more likely, on the date of the consolidated financial statements, that from past events outflows of resources can occur, and whether the amount of the obligation can be reliably estimated. The EPS Group periodically reviews the status of these processes using counselling, both internal and external. These judgements are subject to change as new information becomes available. The amount of provision may change in the future due to new developments in this particular matter.

2.6 TANGIBLE AND INTANGIBLE ASSETS

The useful life of an asset is the period during which the EPS Group expects it to be available for use and this should be reviewed at least at the end of each financial year.

The determination of the useful lives of the assets, the amortization / depreciation method to be applied and the estimated losses resulting from the replacement of equipment before the end of its useful life due to technological obsolescence is critical in determining the amount of amortization / depreciation to be recognized in the income statement for each year.

These parameters are defined using the best knowledge of management, and taking into account the best practices adopted by similar companies in the sectors in which the EPS Group operates.

2.7 IMPAIRMENT OF ACCOUNTS RECEIVABLE

The credit risk on the balance of accounts receivable is assessed on the reporting date, taking into account the knowledge of the client and its risk profile. Accounts receivable are adjusted based on the assessment made by the management of the estimated collection risks at the reporting date, which may differ from the actual risks incurred.

C. RISK MANAGEMENT

3. FINANCIAL RISK MANAGEMENT

3.1 FACTORS OF FINANCIAL RISK

The EPS Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The EPS Group's programme of risk management focuses on the unpredictability of financial markets and seeks to minimize potentially adverse effects on the financial performance of the EPS Group. Therefore, various financial instruments are analysed to minimize the referred risks, which, in certain circumstances, may be used only to hedge risks arising from EPS Group operations and business.

The financial risk management is carried out by a Corporate Financial Management, under policies and guidelines approved by the Board of Directors. This Financial Corporate Management is responsible for identifying, assessing and hedging financial risks in close cooperation with the operating units of the Group. The Board of Directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, price risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity. The Board of Directors carries out a very close monitoring of such transactions.

3.1.1 MARKET RISKS

3.1.1.1 FOREIGN EXCHANGE RISK

In the course of its international operations, the EPS Group is exposed to foreign exchange rates risks, resulting from proposals submitted in foreign currency, work contracts and sale of products and future cash transactions in foreign currency. In addition, as a result of its foreign subsidiaries and associates, the EPS Group has exposure to foreign exchange rate risk due to recognized assets and liabilities and net investments in foreign operations. The main foreign exchange risk exposures of the EPS Group were related to assets and liabilities in US dollars.

The EPS Group has developed an internal policy related with foreign exchange rate risk hedging, which determines that the majority of contracts and orders in foreign currency are hedged using short-term financial derivatives instruments.

In the specific case of Angola, the Group has financial assets of significant amount in kwanzas and reduces its currency exposure through short term applications in US dollars or indexed to the US dollar.

The foreign exchange sensitivity tests on the net financial assets and liabilities did not indicate the existence of material impacts.

3.1.1.2 PRICE RISK

The EPS Group is exposed to long term and short-term changes in the prices of raw materials used in its production processes, when buying raw materials whose price is quoted on the stock exchange. Such exposure refers mainly to copper.

The EPS Group implemented policies in order to minimize the impact of price changes of these raw materials on consolidated net income, having established risk hedging strategies that allow the use of financial derivative instruments. The Directorate of Corporate Finance is responsible in the EPS Group for ensuring the management of that risk in conjunction with the Procurement Department and Business Units using these raw materials.

On 31 December 2016, the EPS Group had no option type contracts for copper.

3.1.1.3 CASH FLOW RISKS AND FAIR VALUE RELATED TO INTEREST RATES

The interest rate risk of the EPS Group arises mainly from long-term loans, since there no significant long-term interest bearing assets. The Group has no significant amount of long-term interest-earning assets. Loans contracted with variable interest rates expose the EPS Group to the risk of changes in cash flows. The EPS Group's policy is to contract its interest bearing liabilities at variable interest rate, not being thus exposed to fair value risk associated with interest rate changes.

The EPS Group implemented an active interest rate risk management policy, in order to limit the risk of change in cash flows associated with interest rate changes. According to the defined policies, the Corporate Finance Management analyses and decides on derivative financial instruments, and it may do it by negotiating contracts that exchange floating rates to fixed rate, or through options on interest rate.

Exposure to interest rate risk is monitored dynamically. In addition to the assessment of future cash flows based on forward rates, sensitivity tests to variations in the level of interest rates are carried out. Currently, the EPS Group is essentially exposed to the interest rate of the euro curve. The sensitivity analysis is based on the following assumptions:

- Changes in market interest rates affect interest gains and losses on variable rate financial instruments;
- Changes in market interest rates only affect gains and losses in interest on financial instruments with fixed interest rates if these are recognized at fair value;
- Changes in market interest rates affect the fair value of derivative financial instruments and other financial assets and liabilities; and
- Changes in the fair value of derivative financial instruments and other financial assets and liabilities are estimated by discounting future cash flows from current net values, using the market rates at the end of the year.

For each analysis, regardless of the currency, the same changes to interest rate curves are used. The analyses are performed for the net debt, i.e., deposits and investments in financial institutions are deducted. Simulations are performed based on the debt net value and the fair value of derivative financial instruments, at reference dates and taking into account the respective change in interest rate curves.

On December 31, 2016, the EPS Group had not contracted interest rate derivatives. The exposure of the Group on the same date amounted to approximately 73,4 million of bank loans, mainly denominated in euros

For the financial year ended December 31, 2016, if interest rates on loans and deposits had been 0.25% higher / lower, considering all other variables held constant, the result for the year before taxes would have been lower / higher by 171 thousand euros. These effects are mainly due to higher or lower interest expense on variable rate loans.

3.1.2 CREDIT RISK

Credit risk is the risk that the counterparty may fail to fulfil its contractual obligations, which may lead to the recognition of a loss. Credit risk results mainly from the EPS Group's operating activities, specifically the risks of lending to customers, including receivables and firm commitments, and its investment and hedging activities, including derivative financial instruments and deposits with financial institutions.

FINANCIAL INSTITUTIONS

Regarding financial institutions, the EPS Group selects parties to do business based on credit ratings from independent agencies. The credit risk arising from transactions with banks and financial institutions is managed by the Corporate Finance Directorate of the EPS Group.

The following table summarizes, as of December 31, 2016 and 2015, the credit quality of deposits, investments, other financial investments and derivative financial instruments with positive fair value by reference to external credit ratings:

	31.12.2016	31.12.2015
Rating		
≥AA-	763,978	1,038,140
from A- to A+	2,622,560	2,606,256
from BBB- to BBB+	4,253,967	3,324,961
from BB- to BB+	4,737,027	16,246,365
≤B+	12,484,811	12,101,185
Without rating	4,000,903	2,571,977
	28,863,247	**37,888,884**

The ratings shown correspond to the rating given by Standard & Poor's. When these are not available, Moody's or Fitch's ratings are used.

CUSTOMERS

With respect to customers credit risk, the EPS Group believes that the risk that a counterparty failing to perform its contractual obligations, which could have a significant impact on its consolidated financial statements, is limited because the EPS Group seeks to ensure that customers have strong credit profiles or adequate financing to meet their obligations. Additionally, the EPS Group seeks to reduce exposure to credit risk from customers by implementing, for some contracts, a policy of contractual advances.

The quality assessment of credit risk is performed by the Group's treasury department in accordance with the following methodology: if customers hold a rating of independent external credit, these ratings are used; if no external credit rating exist independently, the credit quality risk is assessed taking into account its financial position and past experience, among other factors. Individual risk limits are determined in accordance with the guidelines set by the Board of Directors. The approval of projects of high or significant risk is also a responsibility of the Board of Directors. The utilization of credit limits is regularly monitored. See Note 10 for additional disclosures about credit risk.

The following table presents an analysis of the credit quality of receivables from customers not overdue:

	31.12.2016	31.12.2015
New customers	18,884,333	5,720,879
Institutional Customers	27,356,463	36,911,406
Other trade receivables	78,872,822	119,605,610
	125,113,618	**162,237,896**

MAXIMUM RISK

The following table shows the maximum exposure to credit risk associated to financial assets held by the EPS Group.

		31.12.2016	31.12.2015
Customers and Accrued Revenue	(Note 10)	236,954,777	270,760,348
Other receivables	(Note 11)	15,596,394	10,843,028
Loans to Related Parties	(Note 28)	724,605	3,437,588
Short tem deposits and investments	(Note 13)	3,146,560	0
Current Deposits	(Note 13)	25,716,687	37,888,884
		282,139,022	**322,929,848**

3.1.3 LIQUIDITY RISK

Cash flow forecasting is performed by the operating entities of the EPS Group and aggregated every year by the Group's Treasury department when preparing the annual budget, being this department responsible for monitoring the forecasted cash flow performed by the EPS Group to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities, including credit lines and commercial paper programmes (Note 17), at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the EPS Group's debt financing plans, the compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements – for example, currency restrictions and covenant compliance, namely: Cross default, Pari Passu, Negative Pledges, Debt and ratios, change of shareholders and others related with operational activities and with the legal, fiscal and operational obligations of the EPS Group.

The cash surplus, held by the operating entities, over and above the balance required for working capital management, is managed locally, taking into account the instructions of the EPS Group with respect to maturity, liquidity and counterparty. Surplus cash held by the Group is invested by choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient margin as determined by the above-mentioned forecasts.

On December 31, 2016, the EPS Group held cash and current deposits amounting to about 22,4 million euros, term deposits amounting to about 3,5 million euros and treasury investments amounting to about 3.1 million euros (Note 13), which was expected to readily generate cash inflows able to facilitate the management of liquidity risk. Moreover, the Group had, on that date, unused credit facilities for about 28,3 million euros.

Amounts in foreign currencies are translated at the exchange rate of the closing date. Interest payments related to liabilities with variable interest rates, are included in the table and are calculated using the spot interest rates available at the reporting date. Assets and liabilities that can be repaid at any time are always allocated to the shorter possible period.

The table below shows the non-derivative financial liabilities which are settled at net value (the EPS Group has no derivative financial instruments that are not settled on a net basis) grouped by relevant residual maturities. The amounts disclosed in the table are the contractual cash flows not discounted.

31 December 2016	Notes	until 1 year	2-3 years	4-5 years	> 5 years
Bank Loans		2,732,368	28,707,499	38,688,143	12,873,963
Derivatives		543,187	0	0	0
Suppliers	15	85,783,287	19,017	0	0
Other liabilities		12,887,082	0	0	0
Financial guarantees	30,1	67,359,823	0	0	0
		169,305,747	**28,726,516**	**38,688,143**	**12,873,963**

31 December 2015	Notes	until 1 year	2-3 years	4-5 years	> 5 years
Bank Loans		17,807,310	18,658,804	31,554,555	28,142,667
Commercial Papers		4,377,415	0	0	0
Shareholders Loans	28,2	3,437,473	0	0	0
Suppliers	15	79,684,190	3,005	0	0
Other liabilities		20,653,703	0	0	0
Financial guarantees	30,1	61,625,319	0	0	0
		187,585,411	**18,661,809**	**31,554,555**	**28,142,667**

3.2 CAPITAL RISK MANAGEMENT

The EPS Group seeks to keep an adequate level of capital so that it not only ensures the continuity and development of its activity, but also to provide adequate returns to its shareholders and to optimize the cost of capital.

The EPS Group may adjust the amount of dividends payable and the return of capital to shareholders or make an issue of new shares or debt in order to maintain or adjust its capital structure.

In accordance with the practices of the industry market, the balance of the capital structure is monitored based on the gearing ratio. The gearing ratio is calculated according to the following formula: Net Debt / Total Capital. Net debt comprises total loans (including banking and related companies' current and non-current loans as shown in the statement of financial position) less cash and cash equivalents, other financial investments and current loans. The total capital consists of equity capital, as presented in the consolidated financial statements, net debt added. The gearing ratio at December 31, 2016 shows the following calculation:

	Notes	31.12.2016	31.12.2015
Debt to Credit Institutions	17	73,416,621	85,564,387
(-) Cash and cash equivalents	13	29,024,861	38,108,319
(-) Loans to related parties		0	115
Net debt		44,391,760	47,455,953
Equity		309,147,595	308,682,442
Total Equity		353,539,355	356,138,395
Gearing		**12.6%**	**13.3%**

In addition, and in accordance with the financing arrangements at the reporting date, the EPS Group is subject to compliance with covenants related to debt ratios (Note 17).

3.3 ESTIMATES OF FAIR VALUE

The following table presents the assets and liabilities of the EPS Group measured at fair value, according to the following levels of fair value hierarchy established in IFRS 7:

- Level 1: the fair value of financial instruments is based on quoted prices in active liquid markets at the reference date of the statement of financial position. This level essentially includes equity and debt instruments (e.g. NYSE Euronext);

- Level 2: Fair value of financial instruments is not based on active market prices, but with valuation models. The main inputs of the models used are observable in the market;

- Level 3: Fair value of financial instruments is not based on active market prices, but with the use of valuation models, whose main inputs are not observable in the market.

	31 December 2016				31 December 2015			
	Level 1	Level 2	Level 3	Level 4	Level 1	Level 2	Level 3	Level 4
ASSETS								
Derivatives								
Tangible assets								
Land at fair value		3,888,050		3,888,050		3,888,050		3,888,050
Assets held for sale								
Investim. in subsidiaries			26,132	26,132			26,132	26,132
	0	**3,888,050**	**26,132**	**3,914,182**	**0**	**3,888,050**	**26,132**	**3,914,182**
LIABILITIES								
Derivatives								
Trading		526,919		526,919		0		0
Hedging		16,268		16,268		0		0
	0	**543,187**	**0**	**543,187**	0	0	0	0

For land valuation, the Market Comparison Criteria was used, using market average values per m^2.

3.4 FINANCIAL INSTRUMENTS PER CATEGORY

On 31 December 2016 and 2015, financial assets were classified in the following categories:

Assets	Loans and Receivables	Held for sale	Non financial assets	Total
31 DECEMBER 2016				
Financial investments		26,132		26,132
Loans to related parties	724,605			724,605
Trade receivables and accrued income	239,527,819		2,432,554	241,960,373
Debtors and deferred costs	15,596,394		17,240,266	32,836,659
Cash and cash equivalents	29,024,861			29,024,861
	284,873,678	26,132	19,672,820	304,572,630
31 DECEMBER 2015				
Financial investments		26,132		26,132
Loans to related parties	3,437,588			3,437,588
Trade receivables and accrued income	270,760,348		466,664	271,227,012
Debtors and deferred costs	10,843,028		13,940,236	24,783,265
Cash and cash equivalents	38,108,319			38,108,319
	323,149,283	26,132	14,406,900	337,582,315

Regarding financial liabilities, their breakdown per category was as follows:

Liabilities	Derivatives held for trading	Derivatives for hedging	Other financial liabilities held at amortized cost	Non financial liabilities	Total
31 DECEMBER 2016					
Debts to Financial Institutions			73,416,621		73,416,621
Loans from related parties			0		0
Suppliers			85,802,304		85,802,304
Creditors and accrued costs			33,348,333	22,126,271	55,474,604
Derivative Instruments	526,919	16,268			543,187
	526,919	16,268	192,567,258	22,126,271	215,236,716
31 DECEMBER 2015					
Debts to Financial Institutions			85,564,387		85,564,387
Loans from related parties			3,437,473		3,437,473
Suppliers			79,687,195		79,687,195
Creditors and accrued costs			38,158,343	15,772,795	53,931,137
Derivative Instruments					0
	0	0	206,847,398	15,772,795	222,620,193

D. CONSOLIDATION

4. FINANCIAL STATEMENTS PRESENTATION

4.1 SCOPE

4.1.1 COMPANIES INCLUDED IN CONSOLIDATION

We hereby present the list of companies included in the consolidation, shares held by Efacec Power Solutions, directly or indirectly, and the consolidation method.

Name	Head Offices	% control	Cons. Method
Efacec Power Solutions, SGPS, S.A.	Matosinhos	H	FULL
Efacec Energia, Máquinas e Equipamentos Eléctricos, S.A.	Matosinhos	100.00	FULL
Efacec Engenharia e Sistemas, S.A.	Maia	100.00	FULL
Efacec Electric Mobility, S.A.	Maia	100.00	FULL
Efacec Serviços Corporativos, S.A.	Matosinhos	100.00	FULL
Efacec Marketing Internacional, S.A.	Maia	100.00	FULL
SMA - Serv Manut Centrais Termoeléctricas, ACE	Oeiras	100.00	FULL
Siemens, Setal, Dégremont e Efacec - Serv Manut, ACE	Amadora	33.00	PRO
EME2 - Engenharia, Manutenção e Serviços, ACE	Lisbon	40.00	ECM
Ensul Meci-Efacec, Cogeração do Porto, ACE	Almada	100.00	ECM
GACE - Gondomar, ACE	Porto	20.00	PRO
EfaServicing, ACE	Matosinhos	100.00	FULL
Efacec Angola, Lda.	Luanda / Angola	98.33	FULL
Efacec Moçambique, Lda.	Maputo / Mozambique	100.00	FULL
EFASA (Pty) Ltd.	Bedfordview / África Sul	100.00	FULL
Efacec Chile, S.A.	Santiago / Chile	100.00	FULL
Power Solutions Brasil, Sist. Automação e Potência, Ltda	S.Paulo / Brazil	100.00	FULL
Efacec Power Solutions Argentina, S.A.	Buenos Aires / Argentina	99.60	FULL
Efacec Equipos Electricos, SL	Tarragona / Spain	100.00	FULL
UTE Efacec Engenharia S.A. y Cemesa SL	Tenerife / Spain	90.00	PRO
UTE Efacec Bahía de Cádiz	Seville / Spain	50.00	FULL
Efacec USA Inc.	Atlanta / USA	100.00	FULL
Efacec Praha, s.r.o.	Prague / Czech Republic	100.00	FULL
Efacec Central Europe Limited SRL	Bucharest / Romania	100.00	FULL
Efacec Contracting Central Europe GmbH	Vienna / Áustria	100.00	FULL
Efacec Índia Pvt. Ltd.	New Delhi / Índia	100.00	FULL
Efacec Algérie, EURL	Argel / Argelia	100.00	FULL
Efacec Maroc, SARLAU	Casablanca / Marroco	100.00	FULL

Legend:
FULL – Full consolidation Method
PRO – Proportional Consolidation Method
ECM – Equity Consolidation Method

4.1.2 CHANGES IN THE SCOPE OF CONSOLIDATION PERIMETER

Name	Notes	% controlo
EXCLUSIONS FROM THE SCOPE OF CONSOLIDATION		
Efacec Power Transformers Inc.	Dissolution	100,00

The effects of the dissolution are described in section 4.4.

4.1.3. OTHER ENTITIES

In 2016, the EPS Group set up a branch in Guinea-Bissau to carry out projects in the businesses of Power Plants and Substations. The branch was incorporated with a capital of 1.200 euros. As at December 31, 2016, this branch had not yet started its activity, and therefore the financial investment is shown in registered at the respective cost.

4.2 FOREIGN CURRENCY EXCHANGE RATES

The consolidation of the EPS Group's foreign companies, the constant values of financial statements concerning assets and liabilities and the values included in the income statement, were converted to Euro, respectively, with the following exchange rates - Final and average (rates published by the European Central Bank):

The main functional currencies subject to conversion were as follows:

			31.12.2016		31.12.2015	
For 1 currency unit – Euro			**Final**	**Average**	**Final**	**Average**
Angola	Kwanza	AOA	174.71918	180.70415	147.74684	132.36328
Argentina	Peso	ARS	16.71276	16.46233	14.17752	10.31846
Brazil	Real	BRL	3.43050	3.79311	4.25900	3.68339
Chile	Peso	CLP	707.08501	741.59708	775.29803	726.47339
Czech Republic	Coroa	CZK	27.02100	27.04230	27.02900	27.26790
Argelia	Dinar	DZD	116.36705	120.74603	117.12563	111.49305
Índia	Rupia	INR	71.59350	74.18306	72.53500	71.00497
Marroco	Dirham	MAD	10.65432	10.83450	10.79653	10.80311
Mozambique	Metical Novo	MZN	75.25220	68.08077	51.73461	43.63966
Norway	Coroa	NOK	9.08630	9.25883	9.61600	8.97483
Romania	Novo Leu	RON	4.53900	4.49312	4.52960	4.44097
Tunisia	Dinar	TND	2.45590	2.37868	2.21252	2.17441
United States	Dolar	USD	1.05410	1.10259	1.09260	1.10447

4.3 INCOME STATEMENT STRUCTURE

Pursuant to paragraph 85 of IAS1, in 2015 the EPS Group showed changes in its Income Statement by Nature, showing two headings which constitute operating results, but which have, each, differentiating elements and exceptional components that should be autonomized.

In the 2016 financial year, the EPS Group continues to growth these two headings separately, and the heading "Management Fees" only shows the respective amount for 2015 (Note 22.2).

Cost with contracts termination refer to the amounts incurred as compensation for contract termination, that are usually recorded under "Staff costs". As each compensation reflects an unrepeatable cost considered as non-recurring and with proper pay-back, it explains our option of disaggregating and presenting it as a separate item in the income statement (Note 22.3).

4.4 DISCONTINUED OPERATIONS

At the end of 2014, the EPS Group sold the assets related to the manufacture of transformers that operated in the United States. Consecutively, Efacec Energia, which detains the shareholding in the local company, decided on its dissolution, which occurred in 2016, after the liquidation of all the assets and remaining liabilities. The dissolution gave rise to a result of about 458 thousand euros.

During this period, the consolidated income statement of the Group EPS has shown all the results of Efacec Power Transformers, Inc., under the heading "Results of discontinued operations". In 2016 and 2015, the contribution to this result was as follows:

	31.12.2016	31.12.2015
Operating profit	4,980,386	1,633,854
Operating costs	-6,107,203	-2,182,085
Operating income	-1,126,817	-548,231
Financial income	451,530	-56,934
Results of discontinued operations	**-675,287**	**-605,165**

E. NOTES ON FINANCIAL STATEMENT ON DECEMBER 31, 2016 AND 2015

5. TANGIBLE ASSETS

5.1 MOVEMENTS IN THE PERIOD

Tangible assets on December 31, 2016 and 2015 and the changes in their value were as follows:

	Lands and buildings	Vehicles and Machinery	Office equipement	Others	Total
31 DECEMBER 2015					
Opening net book value	12,991,712	29,194,723	1,088,049	1,789,040	45,063,524
Exchange differences	-21,887	-12,848	-12,009	-68,518	-115,262
Inclusions into consolidation perimeter	58,139	321	19,470	30,183	108,112
Additions	5,857,658	879,560	473,861	185,422	7,396,502
Disposals	-3,005,304	15,591	-717	0	-2,990,431
Depreciation allocations	-1,528,427	-3,591,547	-451,436	-415,116	-5,986,526
Transfers and adjustments	25,129	175,330	8,480	-262,885	-53,946
Closing net value	14,377,019	26,661,131	1,125,698	1,258,126	43,421,973
31 DECEMBER 2016					
Opening net book value	14,377,019	26,661,131	1,125,698	1,258,126	43,421,973
Exchange differences	-24,772	-6,955	-5,768	-60,974	-98,469
Additions	329,955	454,271	154,817	1,849,173	2,788,215
Disposals	0	-34,656	-7,078	0	-41,734
Depreciation allocations	-1,828,106	-3,729,514	-446,047	-341,776	-6,345,443
Transfers and adjustments	4,275	43,704	40,881	-209,798	-120,938
Closing net value	12,858,370	23,387,981	862,503	2,494,751	39,603,605
Cost or fair value	37,960,444	110,939,213	23,471,439	10,696,067	183,067,163
Accumulated depreciation	-25,102,074	-87,551,232	-22,608,937	-8,201,315	-143,463,559
Net book value	12,858,370	23,387,981	862,503	2,494,751	39,603,605

The production equipments were valued by a specialized company in 2014, readjusting its value by 19,4 million euros. The revaluation was considered within the scope of the acquisitions of financial holdings, in the process of incorporation of EPS. The impact on depreciation and amortization for the year 2016 was 1,1 million euros, resulting in a net readjustment amount of 17,6 million euros at 31 December 2016.

The heading "Other tangible assets" at 31 December 2016, includes equipment amounting to 832,593 euros that are obsolete and, therefore, were the subject of an impairment of their cost value, in prior financial years (Note 22.4).

INVESTMENTS

In the year 2016, gross investment in tangible fixed assets amounted to 2,8 million euros. The investments related mainly to replacement of manufacturing equipment intended to maintain EPS Group business units production capacity in information systems and improve facilities. At year end part of these assets were still being installed, thus not yet ready for use.

DEPRECIATION

Depreciation is carried out in accordance with Note 1.4. The value of depreciation shown in the income statement considers the appropriations for depreciation of assets, usually deducted from the value of the investment subsidies recognized in the period. In this period, the deduction through the recognition of subsidies amounted to 321,299 euros in 2016 (335,317 euros in 2015).

5.2 LEASED TANGIBLE ASSETS

The heading "Tangible Assets" includes the following amounts where the EPS Group is a lessee under a finance lease.

	31.12.2016	31.12.2015
Financial lease	417,899	30,000
Accumulated depreciation	-309,581	-9,375
Net book value	108,318	20,625

The responsibilities relating to these contracts are presented in Liabilities under the item Suppliers (Note 17), and are divided by current and non-current liabilities, whether the due payment dates are respectively less or more than one year.

Operational lease rentals are not part of the assets, the lease cost being included in the balance sheet under the heading "External Supplies and Services".

5.3 ASSETS PLEDGED AS COLLATERAL

Currently, there are no assets pledged as collateral.

6. INTANGIBLE ASSETS

Movements in intangible assets in 2016 and 2015 and their values at the end of each year were as follows:

	R&D	Contracts	Brand	Other	Total
31 DECEMBER 2015					
Opening net book value	1,512,883	6,184,430	79,000,000	576,596	87,273,908
Exchange differences	0	-57,393	0	-6,609	-64,002
Additions	1,068,694	0	0	406,453	1,475,148
Depreciation allocations	-885,791	-3,933,032	0	-105,073	-4,923,896
Transfers and adjustments	0	0	0	-4,914	-4,914
Closing net value	1,695,786	2,194,005	79,000,000	866,452	83,756,243
31 DECEMBER 2016					
Opening net book value	1,695,786	2,194,005	79,000,000	866,453	83,756,243
Exchange differences	0	-22,121	0	7,927	-14,194
Additions	2,201,780	0	0	27,235	2,229,015
Depreciation allocations	-1,047,245	-1,829,446	0	-138,812	-3,015,504
Transfers and adjustments	355,763	0	0	-361,682	-5,919
Closing net value	3,206,084	342,438	79,000,000	401,120	82,949,642

The caption "Contracts" and "Brand" relate with acquisition of companies regarding the Efacec Power Solutions incorporation process, in 2014, and consequent allocation of their purchase values. The values allocated to contracts are depreciated according to its stage of completeness. In 2015, the Brand was subject to valuation by a specialized company, having been awarded the value of 79 million euros. The Brand is included in the Group's annual impairment tests (Note 7).

Investment in intangible assets of the financial year 2016 amounted to 2,2 million euros, and relates mainly to the certification and approval of products from the business unit Switchgear.

7. GOODWILL

There were no changes to the Goodwill in 2016. Its value was affected only by foreign exchange rate differences, which mainly affected investments in Mozambique.

	31.12.2016	31.12.2015
Opening net book value	121,313,286	121,508,964
Additions	0	526,681
Exchange differences	-1,155,046	-722,359
Closing net value - Published	120,158,240	121,313,286

The contribution of each cash generating unit to the goodwill shown in the statement of financial position at December 31, 2016 and 2015 was as follows:

	31.12.2016	31.12.2015
Efacec Energia	56,794,222	56,659,429
Efacec Engenharia	52,748,009	52,748,009
Efacec Electric Mobility	8,037,565	8,037,565
Efacec Mozambique	2,317,642	3,541,722
Efacec Angola	260,802	326,561
Total	120,158,240	121,313,286

The preparation of the business plans was aligned with the Group's current structure and the way Business Units are managed, which changed when compared to 2015.

The international subsidiaries Efacec Central Europe and Power Solutions Brasil have activities strongly concentrated in the Automation business segment. Likewise, the subsidiaries Efacec India, Efacec Equipos Eléctricos and Efacec Praha also carry out their activity in the Switchgear business unit. The management of these subsidiaries is under the operational management of the business units to which they report, and driven from Portugal, acting mainly as representations of Efacec Energia's activity in the respective markets. Under this assumption, the business plans of these subsidiaries were consolidated at Efacec Energia.

For identical reasons the international subsidiaries Efacec Contracting Central Europe, Efacec Algérie and Efacec Chile were consolidated in Efacec Engenharia e Sistemas. These three legal entities are branches with strong operation concentration on Contracting business segment; and are particularly dependent on Efacec Engenharia e Sistemas, with regard to references, specific technical skills and financial resources, working mainly as extensions of Efacec Engenharia e Sistemas activity in the Algerian market and in some Central Europe countries.

The decomposition of Goodwill by business area was as follows:

by Business Area	31.12.2016	31.12.2015
Transformers and Servicing	36,330,291	34,505,140
Switchgear and Automation	22,280,242	23,838,374
Contracting	53,091,303	54,625,924
Electric Mobility	8,456,404	8,343,847
Total	120,158,240	121,313,286

IMPAIRMENT TESTS

At year end, impairment tests are performed for the majority of the assets that justify the values of goodwill and the Efacec Brand.The tests are performed in order to evaluate the recoverability of goodwill and the Brand, considering the historical performance and / or business development expectations. The recoverable amount of a CGU is calculated based on calculations of value in use.

The ratings are based on cash flows projections based on financial budgets approved by management covering a five-year period, which are discounted at a rate calculated in accordance with the CAPM (Capital Asset Pricing Model). After this five-year period, cash flows are extrapolated using growth rates estimated on business development expectations.

The assumptions used in the impairment tests performed on December 31, 2016 were as follows:

	2016				2015			
	Revenue growth rate	**EBITDA margin**	**Discount rate bef. taxes**	**Perpetuity growth rate**	**Revenue growth rate**	**EBITDA margin**	**Discount rate bef. taxes**	**Perpetuity growth rate**
Efacec Energia	4.4%	8.6%	9.0%	1.9%	11.7%	7.9%	8.9%	0.0%
Efacec Engenharia	5.6%	7.0%	9.5%	1.8%	10.2%	6.5%	10.2%	0.0%
Efacec Electric Mobility	29.7%	12.7%	12.4%	2.1%	22.7%	11.4%	12.2%	1.0%
Efacec Mozambique	16.7%	8.7%	11.6%	5.6%	9.7%	7.4%	13.7%	2.5%
Efacec Angola	20.1%	8.2%	16.0%	2.0%	17.7%	5.3%	17.4%	1.0%

Overall, discount rates have decreased in 2016. In the African subsidiaries (Angola and Mozambique) it considered the weight of the different markets to which the company is exposed, which allows to mitigate the risk and thus reduce the discount rate.

No goodwill or Brand impairment arose from the tests performed.

SENSITIVITY ANALYSES

Evaluations were still subject to sensitivity analyses to the main variables used in order to test the resistance of the recoverable value of the assets to unfavourable changes of each. Variables were thus subject to the following impacts:

	Revenue growth rate	**EBITDA margin**	**Discount rate**	**Perpetuity growth rate**
Change in assumptions	-10.0%	-10.0%	+1 /+2pp	-1.0pp

The impacts produced by these variations do not generate any impairment.

In general, the discount rate is the most sensitive variable in the tests performed. In the subsidiaries of Angola and Mozambique, the growth rate of sales is also a variable whose change implies significant effects on the value of the assets. However, the significant growth since 2017 onwards is supported on confirmed orders and there are interesting business expectations in these markets.

8. FINANCIAL ASSETS AVAILABLE FOR SALE

Financial assets classified as held for sale are broken down as follows:

	31.12.2016	**31.12.2015**
Financial assets held for sale		
Financial investments		
NET - Novas Empresas e Tecnologias, S.A.	11,132	11,132
Other		
C.E.I.I.A. - Centro para a Excelência e Inovação na Indústria Automóvel	15,000	15,000
Total net investment	26,132	26,132

Financial assets available for sale include shares in unlisted companies whose fair value cannot be reliably measured as there are no market prices or comparable transactions and as such, they are recognized at cost.

9. DERIVATIVES INSTRUMENTS

In December 31, 2016, a number of financial derivative contracts were in place for exchange rate hedging amounting to 19,4 million US dollars.

The impact of the valuation of these derivative instruments on the financial statement, at 31 December 2016, led to the register of short-term liabilities in the amount of 543 thousand euros. This amount includes exchange rate derivatives recognized via income statement (527 thousand euros) and exchange rate derivatives recognized via equity (16 thousand euros).

The amount recorded in the income statement is recorded under "Other operating income" and impacted exchange rate differences, with an opposite impact on the hedged derivative.

10. CUSTOMERS AND ACCRUED INCOME

Details of the item on December 31, 2016 and 2015 are as follows:

	31.12.2016	31.12.2015
Customers – current account	146,180,039	177,646,738
Customers – related parties (Note 28.2)	19,789,349	26,253,252
Customers – receivables	2,153,971	935,477
Customers – bad debts	15,213,883	13,186,087
Accrued income – multi-year contracts (Note 32)	70,154,026	69,509,811
	253,491,269	287,531,364
Impairment losses on accounts receivable (Note 22.4)	-16,536,492	-16,771,016
Account receivables – net	**236,954,777**	**270,760,348**
Accrued income – not covered by IFRS 7	2,432,554	466,664
Total	**239,387,332**	**271,227,012**
* Non Current	0	0
* Current	239,387,332	271,227,012

The fair value of account receivables does not differ from their book value.

There is no concentration of credit risk on the account receivables and other debtors, as the EPS Group has a large number of customers, internationally dispersed and covering different business segments.

Accrued income not covered by IFRS.7 refers to the recognition of income on the income statement respecting the principle of accruals, but is not related to multi-year contracts, namely invoicing to be issued and investment incentives to be received.

DENOMINATION

On December 31, 2016 and 2015, the amount 'receivables', including accrued income on multi-year contracts, were denominated in the following currencies:

		31.12.2016	31.12.2015
Euro	EUR	166,843,827	191,156,224
American dollar	USD	59,954,455	65,538,758
Algerian dinar	BRL	5,125,372	4,197,423
Indian rupee	AOA	4,160,306	3,471,121
Algerian dinar	DZD	3,794,099	5,180,901
Chilean Peso	CLP	3,114,068	3,202,477
Indian rupee	INR	2,257,598	2,749,754
Mozambican Metical	MZN	1,667,396	2,386,996
New Leu Romania	RON	1,310,130	1,281,291
Swedish Crown	SEK	1,175,718	1,717,323
Morocco Dirham	MAD	860,151	1,067,501
Georgia Lari	GEL	815,669	2,805,559
Sterling Pound	GBP	483,011	884,159
Other		1,929,469	1,891,876
		253,491,269	**287,531,364**

STRUCTURE OF SENIORITY – IFRS 7

On December 31, 2016 and 2015, trade receivables, including accrued income in multi-year contracts, had the following seniority structure, considering the due dates of the outstanding balances:

	31.12.2016	31.12.2015
Balance not due (Note 3.1.2)	125,113,618	162,237,896
Balance overdue		
Up to 90 days	38,982,772	29,796,759
From 90 to 360 days	29,874,973	46,133,552
Over 360 days	59,519,907	49,363,158
	128,377,652	125,293,468
Total	**253,491,269**	**287,531,364**
Impairment (Note 22.4)	*-16,536,492*	*-16,771,016*
Balance of Accounts receivable – net	**236,954,777**	**270,760,348**

On 31 December 2016, the credits already due totalled 128.377.652 euros. The value of these receivables, net of impairment, is as follows:

			31.12.2016			31.12.2015
	Balance overdue	**Impairment**	**Net Value**	**Balance overdue**	**Impairment**	**Net Value**
Up to 90 days	38,982,772		38,982,772	29,796,759		29,796,759
From 90 to 360 days	29,874,973	-8,744	29,866,229	46,133,552	-237,975	45,895,577
More than 360 days	59,519,907	-16,527,748	42,992,159	49,363,158	-16,533,041	32,830,117
	128,377,652	**-16,536,492**	**111,841,160**	**125,293,468**	**-16,771,016**	**108,522,452**

It is EPS Group's understanding that the estimated impairment losses on receivables are adequately provided for in the consolidated financial statements and reflect the real risk of loss.

In the financial year 2016, the EPS Group recognized impairments in receivables amounting to 0,8 million euros and used or reversed impairment amounting to 0,5 million euros (Note 22.4).

Amounts included in the item Accrued Income relate to the recognition of income from projects and work in progress, whose stage of completion is greater than the invoicing (Notes 1.16.3 e 32).

Factoring

The EPS Group entered, with specialized financial institutions, into factoring contracts with and without recourse, amounting to 21,4 million euros.

	31.12.2016	31.12.2015
Assets transferred and de-recognized in financial statements		
Value of assets	19,982,230	15,079,059
Value transferred	-18,146,677	-14,145,424
Net value	1,835,552	933,634
Assets transferred and not de-recognized in financial statements (Note 17)	1,416,483	858,053

The transferred assets fully relate to customer balances, and the non-derecognized assets have associated liabilities recorded under item Borrowings and classified as "Other loans" (Note 17).

11. DEBTORS AND DEFERRED COSTS

The details of this item as at December 31, 2016 and 2015 are as follows:

	31.12.2016	31.12.2015
Other debtors – several	7,991,484	11,459,335
Other debtors – related parties (Note 28.2)	13,093,847	4,872,631
	21,085,331	16,331,966
Losses with impairment (Note 22.4)	-5,488,938	-5,488,938
Other Debtors – Financial Assets IFRS 7 (Note 3.1.2)	15,596,394	10,843,028
Other debtors not covered by IFRS 7	774,826	636,364
State and other public entities	15,144,859	12,320,525
Deferred costs	1,320,581	983,347
Total	**32,836,659**	**24,783,264**
* Debtors and deferred costs – Non Current	0	0
* Debtors and deferred costs – Current	31,081,122	23,100,870
* Income Tax[a]	1,755,538	1,682,395

a) This caption does not include the credits for tax benefits to internationalization (about 948 thousand euros) or special payments on account (about 169 thousand euros).

In December 31, 2016 the caption "Other debtors", remained at identical levels of 2015 but with greater incidence in balances with related entities that belong to the MGI Group. The accumulation impairment loss includes an amount of 4,6 million euros related to the credit over an associate of MGI in China.

This item includes receivables non-related with the company's business, current accounts with staff, security deposits and other.

The items included in the balances with the State and other public entities increased by circa 3 million euros, mainly related to recoverable VAT. On 31 December 2016 and 2015, the breakdown was as follows:

	31.12.2016	31.12.2015
Income tax – current	2,872,775	2,630,452
Value Added Tax to be recovered	11,162,873	7,936,227
Other taxes to be recovered	1,109,211	1,753,847
	15,144,859	**12,320,525**

At 31 December 2016, the caption "income tax - current" includes the following amounts:

Income Tax – Current	**31.12.2016**
Estimated income tax (Note 24)	-2,052,156
Payments on account	2,426,166
Withholding Tax	1,327,916
Credits for tax benefits to internationalization	948,057
Others	222,793
	2,872,775

The VAT amounts to be recovered have recurrent nature and relate mainly to activities of the EPS Group where there is reverse charge and which are periodically subject to recovery process.

12. INVENTORIES

	31.12.2016	31.12.2015
Raw materials	16,287,424	21,013,187
Goods	650,346	457,810
Products and works in progress – pluriannual contracts (Note 32)	5,590,158	12,859,880
Products and works in progress	9,629,592	14,159,735
Finished goods	4,819,500	3,888,044
Inventories adjustement (Note 22.4)	-713,005	-761,317
	36,264,015	**51,617,339**

The working capital management initiatives, in particular on inventory, led to a significant reduction in the inventory of raw materials and in work in progress.

13. CASH AND CASH EQUIVALENTS

	31.12.2016	31.12.2015
Cash	161,614	219,436
Current deposits	22,203,248	36,292,201
Deposits	3,513,439	1,596,683
Short term applications	3,146,560	0
Subtotal (Note 3.1.2)	28,863,247	37,888,884
	29,024,861	**38,108,319**

At December 31, 2016, short term applications consisted of treasury bonds from the People's Republic of Angola indexed to the US dollar held by Efacec Angola. The bonds were acquired in the secondary market, with the dual objective of protection against the risk of exchange rate devaluation of the kwanza and of profiting from the available cash. Bond maturities are between February and December 2017, but are tradable at all times.

The values listed in heading "Cash and cash equivalents" at the end of 2016 and 2015 were denominated in the following currencies:

		31.12.2016	31.12.2015
Euro	União Europeia	14,352,498	26,282,366
Kwanza	Angola	6,587,038	1,863,090
Lev	Bulgária	552,065	1,328,680
Coroa	Rep. Checa	409,777	757,470
Dinar	Algéria	540,473	335,992
Dirham	Marrocos	1,712,003	781,151
Novo Leu	Roménia	578,716	2,093,377
Dólar	Estados Unidos	1,660,054	1,402,717
Rupias	Índia	1,315,484	984,718
Outras		1,316,754	2,278,758
		29,024,861	**38,108,319**

14. EQUITY

14.1 SHARE CAPITAL AND ISSUE PREMIUM

On December 31, 2016, the share capital, fully paid, was represented by 57,174,806 ordinary shares with a nominal value of 5 euros. The shareholder breakdown on that date and at the end of the previous year was as follows:

Entity	31.12.2016		31.12.2015	
	Nº shares	%	Nº shares	%
Winterfell 2 Limited	41,525,275	72.6%	41,525,275	72.6%
MGI Capital, SGPS, S.A.	15,649,531	27.4%	15,649,531	27.4%
Total	**57,174,806**	**100.0%**	**57,174,806**	**100.0%**

The company has no shares of its own.

14.2 OTHER EQUITY INSTRUMENTS

Efacec Power Solutions has also additional paid-in capital amounting to 35.900.000 euros, provided by the shareholders in proportion to their holdings. The additional paid in capital is ruled by the regulations of supplementary payments.

14.3 RESERVES AND ACCUMULATED INCOME

This item is mainly formed by the accumulated annual results and not distributed and, occasionally, by amounts recorded directly in reserves, contractual or others.

14.4 OTHER ACCUMULATED COMPREHENSIVE INCOME

EXCHANGE DIFFERENCES

Reserves of foreign currency translation reflect on exchange variations that took place in the translation of the subsidiaries' financial statement in a currency other than Euro, in the update of the net investment in subsidiaries and in the update of goodwill, and are not liable to being distributed or used to absorb damages.

The caption also includes exchange differences arising from the long-term loans granted by EPS to the subsidiaries of Angola and Mozambique. In the light of IAS 21, these loans are treated as financial investments and therefore have no set date for repayment.

15. SUPPLIERS

The breakdown of this item, on December 31, 2016 and 2015 was as follows:

	31.12.2016	31.12.2015
Suppliers – current account	77,010,915	96,218,795
Suppliers – related parties (Note 28.2)	1,156,774	1,156,885
Suppliers – payable securities	750,058	1,062,988
Suppliers – invoices received pending from approval	6,071,919	-19,108,997
	84,989,666	79,329,670
Suppliers of fixed assets – current account	812,638	357,525
Total	**85,802,304**	**79,687,195**
* Non Current	19,017	3,005
* Current	85,783,287	79,684,190

The current debt to Suppliers of raw materials and other services are almost entirely due within 90 days, according to the following table. With regard to Assets providers, there are some values – with reduced expression- maturing at more than one year, shown as 'Non-Current'.

MATURITY OF OUTSTANDING AMOUNTS OF SUPPLIERS – IFRS 7

	31.12.2016	31.12.2015
SUPPLIERS		
Accounts payable to suppliers		
To be paid up to 90 days	78,905,462	68,192,464
To be paid over 90 days	6,084,205	11,137,207
	84,989,666	79,329,670
FIXED ASSETS SUPPLIERS		
Accounts payable to suppliers		
To be paid up to 90 days	718,624	334,661
To be paid over 90 days	94,013	22,864
	812,638	357,525

DENOMINATION

The debt to suppliers, on 31 December 2016 and 2015 was called in the following currencies:

		31.12.2016	31.12.2015
Euro	EUR	70,007,066	56,099,365
American dollar	USD	3,457,504	11,559,548
Algerian dinar	DZD	2,662,735	2,776,875
Indian rupee	INR	4,716,198	4,020,699
Other		4,958,802	5,230,709
		85,802,304	**79,687,195**

16. CREDITORS AND ACCRUED COSTS

	31.12.2016	31.12.2015
Advance payments from customers	19,445,637	17,045,255
Other creditors – several	1,750,569	1,551,234
Other creditors – related parties (Note 28.2)	1,015,615	459,384
Other creditors – Financial Assets IFRS	22,211,820	19,055,873
Other Creditors not covered by IFRS 7 (a)	625,877	496,085
State and other public entities (a)	5,596,058	5,629,044
Accrued costs:	27,040,849	28,750,135
Accrued costs – costs with work in progress	7,623,321	8,194,281
Accrued costs – payable remunerations (a)	9,367,336	9,647,666
Accrued costs – payable interests	1,186,021	6,707,269
Accrued costs – others	8,864,171	4,200,920
Total	**55,474,604**	**53,931,137**
* Creditors and Accrued not Current Costs	0	0
* Creditors and Current Accrued Costs	55,474,604	53,931,137
* Income tax	0	0

(a) These items are considered by IFRS 7 as non-financial liabilities (Note 3.4)

Advances from Customers have still a significant importance in this item, increasing by about 2,4M€ in comparison with the previous year's closing. The origin of the advances remains dominant in overseas markets, especially projects in Central Europe and Southern Africa.

The caption "accrued costs" registered a decrease in 2016, mainly due to the payable interests that was exceptionally high at closing of the previous year, including amounts incurred in the period prior to the amortization and renegotiation of financial debt in October 2015. On the other hand, there were other accrued costs relating to compensations for termination of employments contracts with which the corresponding agreements were made in 2016, but the respective payments will only occur in 2017 (Note 22.3).

Liabilities with State and Other Public Entities, on December 31, 2016 and 2015, breaks down as follows:

	31.12.2016	31.12.2015
Value added tax – due	1,657,810	1,606,222
Social security contributions	2,355,644	2,392,627
Personal income tax	1,580,553	1,628,078
Other taxes	2,051	2,118
	5,596,058	**5,629,044**

17. AMOUNTS OWED TO CREDIT INSTITUTIONS

This Note discloses the composition, characteristics and conditions of the bank debt registered in the Consolidated Financial Statement of EPS Group on December 2016 and 2015.

The breakdown of debt by credit instrument is as follows:

	31.12.2016	31.12.2015
NON CURRENT		
Bank loans	60,203,099	60,203,099
Current account	12,300,000	2,500,000
Amortized cost	-1,958,643	-1,958,643
	70,544,456	60,744,456
CURRENT		
Bank overdrafts	260,557	2,536,035
Bank loans	0	14,061,965
Current account	1,195,124	3,638,947
Commercial paper	0	4,250,000
Other loans (Note 10)	1,416,483	858,053
Amortized cost	0	-525,069
	2,872,165	24,819,931
Total loans	**73,416,621**	**85,564,387**

BANK LOANS

In October 2015, with the entry of the new shareholder, the companies Efacec Energia e Efacec Engenharia e Sistemas conducted the amortization of significant portions of the syndicated loans obtained in 2014 from three credit institutions. Simultaneously, the loan agreement was renegotiated and led to a Change of Agreement covering namely the extension of the repayment period, more favourable payment conditions, guarantees and obligations of compliance with financial ratios. At the end of 2016, the overall amount outstanding of this syndicated loan amounted to about 72,5 million euros, of which 12,3 million in current account. This loan agreement has an ownership clause that allows creditors to consider the debt past-due if the reference shareholder has a direct or indirect ownership of EPS of less than 51%.

In addition to this contract, there are other short-term credit lines, usually in the form of current account contracted in Portugal or directly by foreign subsidiaries with local financial institutions, amounting to around 1,2 million euros and due in 2017.

COMMERCIAL PAPER

There is a grouped program of Commercial Paper, in which Efacec Energia and Efacec Engenharia e Sistemas are the contracting parties. The program has a maximum value of 4.250.000 euros, valid until December 2017, for emissions between 1 or 6 months. At the end of the financial year there was no commercial paper issued under this program.

OTHER LOANS

The EPS Group also issues occasionally factoring with recourse operation, in which case the values transferred by the factoring companies are recorded in current liabilities.

BANK OVERDRAFTS

Bank overdrafts include the use of current credit accounts, according to plafond and conditions previously negotiated with financial institutions and without defined reimbursement periods, although they are generally assumed to be of short duration. There are some plafond of bank overdrafts negotiated in Portugal and in international subsidiaries, usually at variable interest rates, in accordance with the local interest rate index.

DEBT MATURITY

About 96% of the bank debt on December 31, 2016 is supported by the syndicated loan mentioned above, repayable by 2022.

The maturity of bank debt on such date is shown in the following table:

Type of investments	up to 1 year	2-3 years	4-5 years	> 5 years	Total
Bank overdrafts	260,557	0	0	0	260,557
Bank loans	0	24,081,240	24,081,240	12,040,620	60,203,099
Current account	1,195,124	0	12,300,000	0	13,495,124
Other loans	1,416,483	0	0	0	1,416,483
Amortized cost	0	-1,528,683	-429,960	0	-1,958,643
Total loans	**2,872,165**	**22,552,557**	**35,951,280**	**12,040,620**	**73,416,621**

By comparison, at the end of 2015, the maturity was as follows:

Type of investments	up to 1 year	2-3 years	4-5 years	> 5 years	Total
Bank overdrafts	2,536,035	0	0	0	2,536,035
Bank loans	14,061,965	12,040,620	24,081,240	24,081,240	74,265,064
Current account	3,638,947	0	2,500,000	0	6,138,947
Commercial paper	4,250,000	0	0	0	4,250,000
Other loans	858,053	0	0	0	858,053
Amortized cost	-525,069	-1,087,848	-775,005	-95,789	-2,483,712
Total loans	**24,819,931**	**10,952,771**	**25,806,235**	**23,985,450**	**85,564,387**

DENOMINATION OF LOANS

The financial debt contracted by the companies of the EPS Group based in Portugal is integrally denominated in Euros. The other values relate to financing contracted locally by international subsidiaries. Currently, all loans contracted with financial institutions are denominated in the functional currencies of the respective countries.

The book value of EPS Group loans was on December 31, 2016 and 2015, denominated in the following currencies:

Currency		31.12.2016	31.12.2015
Euro	EUR	71,555,297	79,006,375
Dinar argelino	DZD	963,001	885,800
Mozambican metical	MZN	898,323	3,980,129
Angolan Kwanza	AOA	0	1,692,084
Total		**73,416,621**	**85,564,387**

EFFECTIVE INTEREST RATES

The effective interest rates related to debt instruments and currency were, at the end of 2016, as follows:

Type of investment	EUR	MZN	DZD
Bank overdraft	-	34.3%	8.5%
Bank loans	3.5%	-	-
Current Account	3.6%	28.2%	-
Other (a)	6.0%	-	8.5%

(a) Includes commercial discount operations carried out by Efacec Equipos (EUR) and factoring operations with recourse in Efacec Algeria (DZD).

Comparatively, in late 2015 the rates were as follows:

Type of investment	EUR	AOA	MZN	DZD
Bank overdraft	-	-	19.25%	8.50%
Bank loans	3.95%	-	-	-
Current Account	4.04%	15.51%	13.25%	-
Commercial Paper	6.00%	-	-	-
Other	-	-	-	8.50%

UNUSED CREDIT LINES

The EPS Group has still lines of unused credit lines, which are as follows:

	31.12.2016	31.12.2015
At floating rate		
expiring within one year	10,043,223	4,145,585
expiring after one year	17,700,000	27,500,000
At fixed rate		
expiring within one year	572,347	0
	28,315,570	**31,645,585**

GUARANTEES

With regard to the syndicated financing above mentioned, contracted jointly by the subsidiaries Efacec Energia and Efacec Engenharia, the following guarantees were constituted by the borrowers:

- Crossed guarantee between Efacec Energia, S.A. and Efacec Engenharia;
- Promissory Notes subscribed by Efacec Energia, S.A. and Efacec Engenharia, backed by Efacec Power Solutions;
- Financial Pledge of shares of Efacec Energia and Efacec Engenharia.

COVENANTS

The EPS Group's main financing agreement includes clauses that establish compliance with a Debt Ratio, defined as Net Debt / EBITDA, whose maximum value should be 2.75. This contract ratio is reflected in the consolidated accounts of Efacec Power Solutions, every six months.

These financial statements comply with the contractual ratio, as explained below:

	Million euros
Computation of the ratio on 31.12.2016	
NET FINANCIAL DEBT	
Bank debt (1)	75.4
Cash and cash equivalents (2)	-29.0
	46.4
STATUTORY EBITDA	
Operating Profit	12.1
Amortization and Depreciation	9.0
Provisions and assets impairment	2.0
	23.2
Indebtedness Ratio	**2.0**

1) The bank debt does not include the amount of financing expenses incurred in 2014 and registered under the amortized cost criterion.
2) The caption "Cash and cash equivalents", include the short term applications in the People's Republic of Angola treasury bonds held by Efacec Angola as at 31 December 2016 (Note 13).

18. DEFERRED TAXES

The assets and liabilities of deferred taxes were, at the date of the financial statement the following ones:

	31.12.2016	31.12.2015
Deferred tax assets:		
Recoverable after 12 months	57,053,564	54,795,988
Deferred tax liabilities:		
Recoverable after 12 months	22,382,876	23,394,566

18.1 DEFERRED TAX ASSETS

The value of the item deferred tax assets has the following breakdown:

	Impairment losses financial investment	Impairment losses receivables	Tax losses	Financial Instruments	Tax benefit to report	Other risks and charges	Total
31 December 2014	**44,388,766**	**368,920**	**406,297**	**0**	**7,607,192**	**893,731**	**53,664,905**
Charged to the income statement	0	-165,745	200,903	0	151,914	977,633	1,164,705
Exchange differences	0	0	-16,484	0	0	-15,130	-31,615
Other changes	0	0	0	0	0	-2,008	-2,008
31 December 2015	**44,388,766**	**203,175**	**590,716**	**0**	**7,759,106**	**1,854,225**	**54,795,988**
Charged to the income statement	-44,388,766	0	42,930,457	0	3,226,975	394,531	2,163,197
Exchange differences	0	0	26,101	0	0	5,438	31,540
Charged to equity	0	0	0	3,660	0	0	3,660
Other changes	0	0	12,245	0	0	46,934	59,179
31 December 2016	**0**	**203,175**	**43,559,519**	**3,660**	**10,986,081**	**2,301,129**	**57,053,564**

The value of deferred tax assets at December 31, 2016 is 57,1 million euros. 2016 recorded an increase of 2,3 million euros in comparison with the previous year. The most important item refers to the losses recognized in 2014 with the impairment in the subsidiary Efacec Power Transformers. In 2016, this subsidiary was finally liquidated and, therefore, Efacec Energia, that had a direct financial investment, materialized the effective loss, registering the asset as a tax loss. As at 31 December 2016, the value of this asset amounted to 41,9 million euros, which can be deducted between 2016 and 2027, under the conditions currently applicable by law.

There are also deferred tax assets related to tax benefits in respect of R&D investments (SIFIDE) and capex on intangible assets (RFAI), which amounted to 11 million euros at the end of 2016.

The recoverability of deferred tax assets related to tax losses and tax benefits, totaling approximately 54 million euros, was subject to testing through projections of the business of the main companies integrating the Tax Consolidation Regime for this period, and based on the following assumptions:

Assumptions	31.12.2016	31.12.2015
Sales growth rate (CAGR) to 5th year	6.5%	11.2%
EBITDA average margin up to 5th year	8.9%	7.7%
Growth rate after the 5th years	0%	0%
Tax Rate	22.5%	22.5%

Under these assumptions, no evidence of impairment was observed. Complementary sensitivity analyzes performed allowed to support the consistency of the impairment tests.

The EPS Group recognizes deferred tax assets from tax losses to the extent that the realization of the relevant tax benefit is probable by means of the existence of future taxable profit. In some of these companies, including Efacec Contracting, Efacec Algérie and Efacec Angola, the EPS Group considers that, at this time, there is a reduced capacity for deduction of tax losses on future taxable income, and therefore, no deferred taxes were registered.

18.2 DEFERRED TAXES LIABILITIES

Deferred tax liabilities provide, in a whole, from revaluations of assets made in some subsidiaries companies and had the following development:

	Assets revaluation	Others (a)	Total
31 December 2014	**707,015**	**23,807,163**	**24,514,178**
Charged to the income statement	-2,922	-1,097,346	-1,100,268
Exchange differences	0	-19,344	-19,344
31 December 2015	**704,093**	**22,690,474**	**23,394,566**
Charged to the income statement	-323,042	-681,069	-1,004,111
Exchange differences	0	-7,579	-7,579
31 December 2016	**381,051**	**22,001,826**	**22,382,876**

a) Relating to adjustments of acquisition differences, according to Note 8.

19. PROVISIONS FOR RISKS AND CHARGES

Provisions for risk and charges showed the following development during the financial years 2016 and 2015 (Note 22.4).

	Pensions	Other risks and charges	Total
31 December 2014	**520,143**	**7,259,975**	**7,780,118**
Charged to income statement:			
additional provisions	0	5,254,100	5,254,100
provisions reversals	-112,117	-479,776	-591,892
Exchange differences	0	-72,365	-72,365
Other changes	0	-311,270	-311,270
31 December 2015	**408,026**	**11,650,664**	**12,058,690**
Charged to income statement:			
additional provisions	98,406	2,052,714	2,151,120
provisions reversals	-52,899	-1,874,817	-1,927,717
Exchange differences	0	-17,655	-17,655
Other changes	0	186	186
31 December 2016	**453,532**	**11,811,092**	**12,264,625**

PROVISIONS FOR PENSIONS

As referred to in Notes 1.21.1 e 30.2, this item shows the responsibility of the EPS Group for the payment of retirement pension supplements. The amount recorded corresponds to the actuarial value of defined benefit liabilities, calculated by an independent entity, and reported as of December 31, 2016. In 2016, the composition of the group of beneficiaries did not change, but there was an increase of the provision that was higher than the value used in the year, due to the evolution of the drivers that contribute to the calculation of the liability, namely wages and pensions.

PROVISIONS FOR OTHER RISKS AND CHARGES

This item includes provisions for repairs and after-sales support, penalties and negative deviations from works in progress. These conditions relate to problems under debate with customers, related to the attribution of responsibility, and are subject to continuing review by the various companies in which they occur. The provision is made or enhanced when there is a reasonable likelihood of unfavourable outcome for the company, presenting more appropriately the potential future liabilities of the EPS Group.

In 2016, 2,1 million euros of provisions were made, relating mainly to the Vadeni project in Romania, which recorded a provision of 1,2 million euros. There were also provisions of 0,3 million euros in the Servicing Unit, 0,3 million euros for tax contingencies in India, 0,2 million euros for liabilities related to Ensul Meci-Efacec and 0,1 million euros for contingencies in a project in Chile.

The amount shown in the reversal of provisions corresponds to their use as the related costs are recognized, or other situations that no longer exist. In 2016, the reversals made relate to projects in Algeria, Greece and Spain.

There are no contingent liabilities of environmental nature.

20. DEFERRED INCOME

	31.12.2016	31.12.2015
Grants to investment	390,944	867,381
Deferred invoicing	77,982,072	124,162,713
Others	811,481	849,169
	79,184,498	**125,879,263**

The item "Investment grants" contains amounts received from public authorities as incentive for the Group's investments. These amounts are recorded under this heading and recognized as gains in subsequent years, according to the useful life of the assets financed.

The invoicing schedule agreed with customers is not strictly tied to the degree of completion that ends up being recognized in the works. As such, the item "Deferred income" includes invoices issued but not yet recognized in terms of the stage of completion of the respective works (Notes 1.16 and 32).

21. MINORITY INTERESTS

On 31 December 2016, the amount of minority interest refers to the component of equity attributable to minority shareholders at Efacec Angola (1,7%), Efacec Power Solutions Argentina (0,4%) and the enterprise group Efacec Bahia de Cadiz (50%).

	% Minority	31.12.2016	31.12.2015
Efacec Angola	1.67	-121,623	-106,308
Efacec Power Solutions Argentina	0.04	1,602	141
UTE Efacec Bahía de Cádiz	50.00	2,053	3,608
		-117,968	**-102,559**

22. OPERATING COSTS

22.1 EXTERNAL SUPPLIES AND SERVICES

During the year that ended on December 31, 2016 and 2015, the main external supplies and services were as follows:

	2016	2015
Subcontracts	67,029,735	74,580,593
Transport of goods	11,311,152	13,286,707
Travel and accommodation expenses	9,588,091	9,772,729
Rental and leasing	7,726,877	9,593,575
Fast wearing utensils and tools	3,816,335	3,219,729
Maintenance and repair	2,776,047	2,707,939
Electricity	2,478,693	2,665,297
Fuel	1,734,022	1,841,243
Fees	1,580,888	1,391,878
Insurance	1,505,942	2,037,240
Communications	1,119,394	1,787,004
Comission fees	826,895	1,685,053
Other supplies and services	9,443,370	11,487,047
	120,937,441	136,056,034

The item "Subcontracts" is the most expressive of these costs and relates mainly to operating activities of companies of the EPS Group, having a high correlation with its turnover.

22.2 MANAGEMENT FEES

This item shows in 2015 an amount of 10,736,698 euros, concerning debits of MGI Capital, incurred up to the date, when it disposed its majority position in EPS.

22.3 EXPENSES WITH CONTRACTS TERMINATION

In 2016, this item amounted to 16,3 million euros. This amount includes 6,5 million euros referring to agreements signed in 2016 with employees, but in which the respective payment will occur only in 2017. It also includes an amount of 0,4 million euros relating to an indemnity that was debited to MGI Capital, which income is recognized under "Other operating income".

22.4 PROVISIONS AND IMPAIRMENT OF ASSETS

The table below shows the developments in the various items of provisions and impairments and their reconciliation in the income statement.

2016	Tangible and Intangible Assets	Impaired assets			Provisions		
		Receivable debt		Inventories	Customer Guarantees	Other risks and charges	Pensions
		Customers	Other debtors				
FINANCIAL POSITION							
Balance on 31.12.2015	**966,271**	**16,771,016**	**5,488,938**	**761,317**	**0**	**11,650,664**	**408,026**
Additions	0	752,000	0	78,634	0	2,052,714	98,406
Reversals	0	-195,589	0	-54,757	0	-1,874,817	-52,899
Decreases	0	-291,862	0	0	0	0	0
Transf. and adjustments	0	0	0	0	0	186	0
Exchange differences	-133,677	-499,075	0	-72,189	0	-17,655	0
Balance on 31.12.2016	**832,593**	**16,536,492**	**5,488,938**	**713,005**	**0**	**11,811,092**	**453,532**

In the income statement:

Provisions and impairment	2,029,128
Other	-1,270,942

The value of provisions and impairments of operating costs includes additions and reversals. It excludes-provisions for pensions which affect the item "Staff Costs". Decreases in clients' impairment refer to direct use in customer balances.

In the previous year, the figures were as follows:

2015	Tangible and Intangible Assets	Imparidade de ativos			Provisions		
		Receivable debt		Inventories	Customer Guarantees	Other risks and charges	Pensions
		Customers	Other debtors				
FINANCIAL POSITION							
Balance on 31.12.2014	**1,125,303**	**12,915,028**	**6,215,210**	**837,439**	**363,562**	**6,896,413**	**520,143**
Inclusion scope consolidation	0	1,446,978	0	0	0	0	0
Additions	0	6,911,199	0	202,227	0	5,254,100	0
Reversals	0	-250,000	-736,643	-168,006	-61,249	-418,527	-112,117
Decreases	0	-4,349,074	0	0	0	0	0
Transf. and adjustments	0	315,085	10,371	0	-302,314	-8,957	0
Exchange differences	-159,033	-218,200	0	-110,342	0	-72,365	0
Balance on 31.12.2015	**966,271**	**16,771,016**	**5,488,938**	**761,317**	**0**	**11,650,664**	**408,026**

In the income statement:

Provisions and impairment	10,652,164
Other	80,937

22.5 OTHER OPERATING INCOME

From 2015 onwards, the EPS Group began to record, as operating results, the clearance of exchange differences resulting from the purchase and sale transactions, as they result from its normal activity. For this reason, the balance of other operating income includes approximately 5 million euros of favourable foreign exchange differences, net of unfavourable exchange differences (10,5 million euros in 2015).

In 2016, this caption also includes, in addition to the exchange differences mentioned above, the following revenues: (a) subsidies for research and development activities, amounting to 3,2 million euros, (b) services rendered to MGI Capital and its subsidiaries in the amount of 1,9 million euros, (c) internal expenses capitalization of 1,1 million euros, and (d) insurance compensations amounting to 2,3 million euros.

The amount of insurance compensations relates to an incident at the Maia facility represented a net income of 1,7 million euros, with costs incurred amounting to 2,9 million euros and collections from insurance companies amounting to 4,6 millions of euros. The difference is related to the fact that tangible assets were already substantially depreciated whereas the compensation is based on replacement costs.

23. FINANCIAL RESULTS

Financial Losses and Gains	2016	2015
Interests paid	-4,119,016	-10,366,867
Other financial costs and losses	-3,191,603	-4,347,274
Total Financial Costs and Losses	**-7,310,618**	**-14,714,141**
Interests earned	126,576	3,676,705
Foreign currency exchange gains	92,228	84,993
Other financial income and gains	4,286	10,997
Total financial income and gains	**223,090**	**3,772,695**
Financial Costs – net	**-7,087,528**	**-10,941,446**

In 2016, the caption "Other financial costs and losses" includes 1,6 million euros of commissions on guarantees of a financial nature, which, this year, the Group recorded in this caption (see Note 1). In addition, it includes the following costs: (a) 0,2 million euros of credit insurance premiums, (b) 0,3 million euros of stamp duty on contracts, (c) 0,5 million euros of expenses with banking services, and (d) 0,5 million euros of amortized costs.

24. INCOME TAX

In Portugal, the annual tax returns are subject to review and potential adjustment by tax authorities for a period of up to 4 years. However, if tax losses are used, these may be subject to review and liquidation by the tax authorities for a period of up to 10 years. In other countries where the EPS Group operates, these periods are different and, in most cases, higher.

Tax rates on income in force in Portugal and in the countries where the main foreign subsidiaries of the Group are based for the year ended December 31, 2016, were as follows:

Country	Taxa
Portugal	21%
Angola	35%
Mozambique	32%
Algeria	26%
Spain	28%
Czech Republic	19%

O imposto estimado na Demonstração de Resultados consolidada é o seguinte:

	2016	2015
Current tax (Note 11)	**2,052,156**	1,459,275
Defered tax (Note 18)	**-3,167,308**	-2,264,973
Income tax estimate	**-1,115,151**	-805,698
Previous years taxes	**1,171,155**	339,108
Income tax	**56,004**	**-466,591**

The estimated tax in the consolidated income statement is as follows:

	2016	2015
Earnings before taxes	5,041,257	-20,359,248
Notional tax rate	22.50%	22.50%
Notional tax	1,134,283	-4,580,831
Tax rate differences of foreign subsidiaries	-91,678	41,415
Costs non-deductible for tax purposes	323,941	1,454,523
Autonomous taxation	990,188	781,953
Surtax	180,339	152,229
Tax credits	-357,603	0
Insufficiency of prior years income tax	0	852,524
Unrecorded deferred tax assets in foreign subsidiaries	989,282	2,585,816
Tax benefits available for deduction	-3,776,772	-2,468,387
Prior year income tax adjustments	-346,079	273,991
Others	-161,053	101,067
Corporate income tax	-1,115,151	-805,698

25. EARNINGS PER SHARE

BASIC

Basic earnings per share are calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares issued during the year, excluding ordinary shares purchased by EPS (Note 14).

Foreign currency	**2016**	**2015**
Profit attributable to the company's equity holders	4,309,736	-20,391,472
Weighted average number of ordinary shares in issue	57,174,806	48,428,262
Basic earnings per share (Euro per share)	0.08	-0.42

DILUTED

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding ordinary shares to incorporate the effects of the conversion of all dilutive potential ordinary shares, if any. In 2016 and 2015 years, there are no dilutive effects.

26. DIVIDENDS PER SHARE

During the year 2016, Efacec Power Solutions did not perform any payment of dividends to its shareholders.

F. SEGMENT REPORTING

27. REPORT BY BUSINESS SEGMENTS

The EPS Group has a functional structure based on business segments. This structure is used in daily management for performance appraisal purposes and decision-making.

BUSINESS SEGMENTS

A Business Segment is a distinguishable component of the EPS Group committed in providing an individual product or service, which is subject to different risks and returns from those of other business segments.

The EPS Group's business structure is organized, on a worldwide basis, into the following business segments:

- Transformers and Servicing
- Switchgear and Automation
- Contracting
- Electric Mobility

The tables also include an item called "Other non-allocated and adjustments" that gathers the assets allocated to corporate centres and the disposals related to internal operations.

GEOGRAPHICAL SEGMENT

Currently, EPS does not use the concept of geographic segment in its management information. However, since it is a strongly exporting Group, it keeps the principle of reporting by destination country of its products or services.

In this sense, relevant markets are identified as countries or regions where the EPS Group maintains recurring activity, including markets where it retains its own structures and other markets where it maintains important customers through its sales network.

We present below the main EPS Group's activity indicators, broken down by the above-identified business areas. Transfers or transactions between segments are made on normal commercial terms and conditions applicable to independent third parties.

27.1 INFORMATION BY BUSINESS SEGMENT

The financial information by business segment for the financial year ended on December 31, 2016 and 2015, relating to the turnover and profits, is analysed as follows:

	Energia Sistemas' Products		Sistems	Electric Mobility		
Sales and services rendered	**Transformers and Servicing**	**Switchgear and Automation**	**Contracting**	**Electric Mobility**	**Other allocated and adjustments**	**Total**
2016	173,526,585	100,213,924	176,257,371	12,298,117	(24,341,823)	**437,954,175**
2015	153,726,336	85,858,940	200,897,682	14,979,309	(32,547,911)	**422,914,356**

	Produtos de Energia		Sistemas	Mobilidade Elétrica		
Resultados	**Transformers and Servicing**	**Switchgear and Automation**	**Contracting**	**Electric Mobility**	**Other allocated and adjustments**	**Total**
2016						
EBITDA	**5,637,737**	**8,151,960**	**9,221,846**	**839,901**	**-653,882**	**23,197,561**
Amortization and depreciation	-2,818,476	-1,751,529	-558,194	-125,952	-3,785,498	-9,039,648
Provisions and assets impairment	-111,942	-23,617	-627,684	0	-1,265,885	-2,029,128
Operating profit	**2,707,320**	**6,376,813**	**8,035,968**	**713,949**	**-5,705,264**	**12,128,785**
Net financial costs	-2,099,641	-2,150,853	240,684	-192,144	-2,885,575	-7,087,528
Gains / Losses in associate companies	0	0	0	0	0	0
Profit before tax	**607,679**	**4,225,960**	**8,276,653**	**521,804**	**-8,590,839**	**5,041,257**
Income tax						-56,004
Results of discontinued operations						-675,287
Net profit for the year						**4,309,966**
Attributable:						
Shareholders						4,309,736
Minority Interests						230

	Produtos de Energia		Sistemas	Mobilidade Elétrica		
Resultados	**Transformers and Servicing**	**Switchgear and Automation**	**Contracting**	**Electric Mobility**	**Other allocated and adjustments**	**Total**
2015						
EBITDA	**3,916,790**	**4,948,882**	**5,196,562**	**-364,892**	**-1,887,874**	**11,809,467**
Amortization and depreciation	-3,262,029	-1,376,190	-667,666	-126,915	-5,142,305	-10,575,105
Provisions and assets impairment	-2,096,764	-1,488,256	-5,280,103	-560,409	-1,226,631	-10,652,164
Operating profit	**-1,442,004**	**2,084,436**	**-751,207**	**-1,052,217**	**-8,256,810**	**-9,417,802**
Net financial costs	-2,612,185	-2,733,973	1,067,864	-210,956	-6,452,196	-10,941,446
Gains / Losses in associate companies	0	0	0	0	0	0
Profit before tax	**-4,054,189**	**-649,537**	**316,656**	**-1,263,172**	**-14,709,006**	**-20,359,248**
Income tax						466,590
Results of discontinued operations						-605,165
Net profit for the year						**-20,497,823**
Attributable:						
Shareholders						-20,391,472
Minority Interests						-106,352

The following table indicates the values of the financial statement broken down by business segment, as well as the allocation of investments in the period.

	Produtos de Energia		Sistemas	Mobilidade Elétrica		
Sales and services rendered	**Transformers and Servicing**	**Switchgear and Automation**	**Contracting**	**Electric Mobility**	**Other allocated and adjustments**	**Total**
2016						
Total assets	226,918,613	133,402,295	224,861,181	22,785,126	30,249,093	**638,216,309**
Investments	2,634,204	1,898,507	190,372	218,428	75,719	**5,017,230**
2015						
Total assets	222,088,558	140,005,873	273,560,523	23,296,229	33,683,972	**692,635,154**
Investments	1,494,759	1,087,718	5,462,713	30,687	795,772	**8,871,650**

The assets of segments mainly include tangible and intangible assets, inventories, accounts receivable and availability. Investments include, for those periods, additions to tangible and intangible assets, including the value of goodwill (Notes 6, 7 and 8).

27.2 INFORMATION BY GEOGRAPHY

In terms of geography, the EPS Group analyses its business indicators from the perspective of target markets.
The breakdown of revenues by market destination for the year ended on December 31, 2016 and December 31, 2015 is as follows:

	2016	2015
Portugal	103,829,926	101,744,647
Angola	48,455,700	38,562,412
United Kingdom	42,115,986	26,081,342
United States	27,808,854	26,752,792
Spain	24,567,052	24,795,115
Chile	23,968,035	42,912,972
Magreb	20,860,056	40,676,211
Central Europe	18,140,094	23,816,896
Mozambique	12,163,508	18,296,337
Irland	12,126,143	3,343,281
France	10,915,376	8,263,795
Argentina	10,908,283	2,532,399
Germany	6,585,781	2,077,649
Other Markes	75,509,381	63,058,509
Total	**437,954,175**	**422,914,356**

G. OTHER NOTES

28. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

The scope of this note is the disclosure of transactions and balance between the EPS Group, formed by Efacec Power Solutions and its subsidiaries, and the entities classified as interested parties. Related parties are considered to be Associated companies, Shareholder and Board Directors. The "Shareholders" category includes entities where shareholders hold an important position, with weight in decision making, as well as the entities participating in direct shareholderings.

Transactions and balances between the Group's companies that, in the meantime were excluded from the consolidation process, are not disclosed.

28.1 TRANSACTIONS IN 2016

	31.12.2016	31.12.2015
CURRENT TRANSACTIONS:		
Shareholders		
Operating income	26,154,322	20,039,453
Operating costs and losses	1,346,384	11,827,984
Financial income and gains	0	3,465,086
	24,807,938	**11,676,555**

The commercial terms in transactions are identical to those applied to independent third parties.

28.2 BALANCE WITH RELATED PARTIES

The balances presented in the table below relate primarily to the group of entities that form Winterfell and its shareholders that, from 23 October 2015, took a major position in Efacec Power Solutions.

The EPS Group's assets and liabilities included in the different items of the financial statement and relating to related parties are the following:

	31.12.2016	31.12.2015
DEBTS OF RELATED PARTIES:		
Shareholders		
Current loans (Note 3.4)	724,605	3,437,588
Customers (Note 10)	19,671,801	26,170,009
Customers – impairment	-1,069,767	-893,587
Other debtors (Note 11)	13,061,968	4,842,825
Other debtors – impairment	-4,575,567	-4,575,567
Associates		
Customers (Note 10)	117,548	83,242
Other debtors (Note 11)	31,880	29,806
	27,962,467	29,094,316
DEBTS TO RELATED PARTIES:		
Shareholders		
Non current loans (Note 3.4)	0	3,437,473
Suppliers (Note 15)	1,156,774	1,156,885
Other creditors (Note 16)	1,015,615	459,384
	2,172,390	5,053,742
Net total	25,790,078	24,040,574

The impairment of customers refers to Angolan customers, and it was made in 2015 due to the seniority of the debt, albeit management trust in its recoverability. The impairment of Other debtors refers to an old balance with Liaoyang – Efacec Electrical Equipment, an associated company of MGI Capital.

28.3 DETAILS BY ENTITY OF BALANCE WITH RELATED PARTIES

The breakdown by entity of assets and liabilities presented above is as follows:

	31.12.2016		31.12.2015	
	Loans	Current	Loans	Current
Shareholders				
Winterfell Group and ascendants	0	17,562,971	0	23,552,773
MGI Group and ascendants	724,605	12,998,408	115	5,843,793
Impairment	0	-5,645,334	0	-5,469,155
	724,605	24,916,045	115	23,927,411
Associates				
EME2 – Engenharia, Manutenção e Serviços, ACE	0	117,548	0	78,960
Ensul Meci-Efacec – Cogeração do Porto, ACE	0	31,880	0	34,088
	0	149,428	0	113,048
Total	724,605	25,065,473	115	24,040,459
Net total		25,790,078		24,040,574

The current balance with the MGI Group increased by approximately 7,1 million euros, essentially due to two factors:

a) Services provided to MGI Capital and its subsidiaries and costs incurred on behalf of these companies (approximately 1,9 million euros).

b) Assignment of receivables from a customer in accordance with the shareholders' agreement signed on 23 October 2015 (5,3 million euros).

28.4 COMMITMENTS AND CONTINGENCIES WITH RELATED PARTIES

There are no purchase commitments or contingent liabilities with related parties.

28.5 REMUNERATION OF THE BOARD OF DIRECTORS

During the financial year 2016, the remuneration of the Board Director of Efacec Power Solutions, all of fixed nature, amounted to 1.508.600 euros (219.323 euros in 2015).

29. CONTINGENCIES

29.1 CONTINGENT ASSETS AND LIABILITIES ARISING FROM CONTRACTUAL DISPUTES

We indicate below the values of contingent assets and liabilities arising from contractual disputes in which the EPS Group is involved.

1. CPTM contingency
   The contract for the refurbishment of the signalling of several lines in the railway system of the State of São Paulo in Brazil, executed between the Brazilian company CPTM and the consortium constituted by and between Union Switch & Signal International Co. and Efacec Engenharia e Sistemas, S.A., was terminated, with justified reasons, by the Consortium, on November 24, 2014. Following this termination, the Consortium applied for compensation amounting to approximately 152 million BRL, plus 12.5 million USD, plus 510 thousand euros. The parties established negotiations in an attempt to reach an amicable settlement, which were unsuccessful, ending in November 2016, when CPTM / STM applied for compensation in the amount of approximately 585 million BRL (approximately 170 million euros). Considering the probability of success of each of the claims presented, no provision was made. The risk analysis results in contingent assets of 57 million euros and contingent liabilities of 60 million euros, which are considered to have a "Possible" probability of success. There are still contingent liabilities of 101 million euros with probability of success "Remote" and 9 million euros not yet categorized due to insufficient information.

Pursuant to the contract, if the parties do not reach an agreement, the dispute will be settled by international arbitration. Arbitration proceedings have not yet begun.

Pursuant to the Share Purchase Agreement signed between Winterfell 2 and MGI Capital, EPS Group has a right of recourse against MGI Capital, in connection with any potential liabilities that it may have to assume under this contractual dispute.

2. Vadeni contingency

   With regard to a contract for construction of a water treatment plant in Vadeni, Romania, the client terminated the contract in December 2016 due to delays in the construction work, and claimed for a compensation in the amount of 936 thousand euros plus penalties of 665 thousand euros. Simultaneously, the client executed the bank guarantees that had been contractually provided, in the amount of 553 thousand euros. A 1,2 million euros provision was made in Efacec Engenharia e Sistemas, S.A. accounts, which already includes the value of the executed bank guarantees.

   The contractual dispute is focused on the engineering project to be implemented, as since the beginning of the project there was no agreement between the parties on that respect, which resulted in the delay that led to the termination of the contract. Efacec should challenge in court the termination of the contract, alleging that the delay was due to the client's unjustified refusal to approve the project presented by Efacec.

3. Bouhagi contingency

   With regard to a contract for construction of water treatment plant in Bouhagi, Algeria, the client terminated the contract on January 8, 2017 due to delays in the construction work. Hydrotreatment, a member of the consortium, and the entity which should perform the civil works, is the responsible for the delay. The work carried out by Efacec has so far been carried out in a timely manner. For now, no claim for compensation has been made by ONA, having instead, invited the parties to carry out a valuation of costs and work carried out up to the date of termination of the contract.

   The main contingency arises from the fact that ONA holds bank guarantees provided by Efacec in the amount of approximately 1 million euros, which it may execute by virtue of the joint liability of the consortium, in which case Efacec would have a right of recourse against Hydrotreatment.

4. Contingência Catroel

   Efacec executed a civil works subcontract agreement with Catroel. In May 2012, the subcontractor abandoned the work, but no formal termination of the contract was made. Catroel brought an action against Efacec Algerie initially claiming for the payment of invoices, additional work and damages totaling approximately 42 million dinars, but Efacec was ordered to pay around 75 million dinars, including interest. Efacec has appealed and an expert opinion was delivered, which was favourable to us, however on February 7, 2012 it was annulled and the first judgement was confirmed. We were notified of the judgement on March 6, 2017 and we have a period of 20 days to make the payment and two months to appeal to the Supreme Court. There is a provision associated with this process, so there will be no negative impacts on the income statement.

5. Tovisi contingency

   In Mozambique there is a proceeding brought by Tovisi Moçambique, a subcontractor of Efacec Mozambique in an engineering project in Maputo. Disagreements regarding the work management led to the withdrawal of that company, which filed a legal proceeding for damages amounting to 1 million euros. The legal preceding is pending a court ruling, and Efacec Mozambique believes in a favourable decision outcome.

6. GTC contingency

   In 2011, Efacec USA sold a 500MVA transformer to the company Georgia Transmission Corporation (GTC). In 2013, Efacec underwent a repair in the same transformer under the agreed guarantee. In April 2016, GTC claimed from Efacec USA for a compensation for alleged damages resulting from the same malfunction, which the customer estimated at 170 thousand euros. Efacec USA opposed to the claim on grounds that the costs were unjustified and were not properly demonstrated, and an arbitration proceeding was put in place under the terms of the agreement. We are currently in the process of mediation before challenging the arbitration process.

7. Efacec India tax contingency
   A divergence in the Tax and Social Security Contributions calculated on the expatriates remuneration was identified in the subsidiary in India. Efacec decided in September 2016 to choose for voluntary regularization with the Local Authorities benefiting from a Special Regime for Tax Regularization, through a payment plan to be carried out until September 2017. The total estimated impact is 300 to 370 thousand euros, for which a provision was made.

8. Efacec Algeria tax contingency
   An issue identified in the Algerian subsidiary during a tax inspection regarding the years 2008 to 2011, resulted in several tax adjustments, for non-acceptance of expenses and divergences in the calculation of taxable income. The overall risk is estimated at 880 thousand euros. In 2014, Efacec decided to dispute all the adjustments, but the response of the Algerian Tax Authority rejected the dispute in December 2016. Currently, the procedure to be adopted is under analysis: request for reduction / dispensation of penalties; hierarchical appeal or judicial challenge. The objective is to limit total impact to a maximum of 50% of the value under dispute.

30. COMMITMENTS

30.1 GUARANTEES

EPS Group has contingent liabilities related to bank guarantees and other contingencies related to its business. The bank guarantees are mainly linked to the projects and orders received and their beneficiaries are the EPS Group customers. These contingencies are not expected to result in significant liabilities.

The following table shows the volume of bank guarantees, distributed between:

a) Bank guarantees, which mainly include guarantees issued in favour of customers to receive advances, amounts related to contractual retentions and stand-by letters of credit, and

b) Other guarantees, especially guarantees for tenders and supply/execution guarantees.

	31.12.2016	**31.12.2015**
Financial guarantees	67,359,823	61,625,319
Other guarantees	134,594,786	155,518,796
Total	201,954,609	217,144,115

30.2 PENSIONS

In the EPS Group there are supplementary retirement pension complements according to what is described in Note 1.21.1.

The existing cases are managed by the Group and are subject to an annual assessment by specialized independent entities, the future liability being presented in the financial statement under the item ‘Provisions for Pensions’ (Note 19), and corresponds to the present value of liabilities for benefits defined at the date of the balance sheet. On 31 December 2016, the group covered by this benefit consisted of 18 persons, and the respective provision amounted to 454 thousand euros.

30.3 OPERATING LEASE COMMITMENTS IN WHICH THE GROUP IS THE TENANT

The EPS Group leases various vehicles through non-revocable lease agreements. The lease terms have various lease periods, readjustment clauses and renewal rights. On the date of the financial statement, the Group held Long Term Rentals (“Renting”) contracts considered as an operating lease, the value of the outstanding lease amounted to 2,178 thousand euros, with the following maturities:

	31.12.2016	**31.12.2015**
Up to 1 year	882,360	1,027,571
Between 1 and 5 years	1,296,597	1,023,101
	2,178,958	**2,050,672**

31. JOINT VENTURES

The EPS Group has several interests in joint operations and joint ventures, which take the legal form of Complementary Companies Groupings (ACEs) (Note 4). These entities provide services resulting from contracts entered with customers, mainly in the business units of Contracting.

The following tables show information concerning assets, equity, income and profits of each joint venture integrated in Efacec Power Solutions accounts in 2016. The values included in these indicators correspond to the social accounts of entities expressed in Euro, before applying integration rates.

Joint Agreements	Head Office	%	Method	Assets	Equity	Total Income
SMA – Serv Manut Centrais Termoeléctricas, ACE	Oeiras	100,0%	FULL	865.664	847.824	42.549
Siemens, Setal, Dégremont e Efacec – Serv Manut, ACE	Amadora	33,0%	PRO	210.298	0	237.495
EME2 – Engenharia, Manutenção e Serviços, ACE	Lisboa	40,0%	ECM	1.652.972	0	0
UTE Efacec Engenharia S.A. y Cemesa SL	Santa Cruz de Tenerife / Espanha	90,0%	PRO	228.574	198.079	36.141
GACE – Gondomar, ACE	Porto	20,0%	PRO	47.861	0	0
UTE Efacec Bahía de Cádiz	Sevilha / Espanha	50,0%	PRO	658.340	22.769	747.599
EfaServicing, ACE	Matosinhos	100,0%	FULL	839.398	82.014	1.077.613
Ensul Meci-Efacec – Cogeração do Porto, ACE	Almada	100,0%	ECM	1.505.833	-543.498	850

The comparative figures for the year 2015 are as follows:

Joint Agreements	Head Office	%	Method	Assets	Equity	Total Income
SMA – Serv Manut Centrais Termoeléctricas, ACE	Oeiras	100,0%	FULL	869.156	847.883	832.668
Siemens, Setal, Dégremont e Efacec – Serv Manut, ACE	Amadora	33,0%	PRO	247.938	0	332.367
EME2 – Engenharia, Manutenção e Serviços, ACE	Lisboa	40,0%	ECM	1.652.972	0	1.890.844
UTE Efacec Engenharia S.A. y Cemesa SL	Santa Cruz de Tenerife / Espanha	90,0%	PRO	332.536	293.831	0
GACE – Gondomar, ACE	Porto	20,0%	PRO	47.861	0	4.632
UTE Efacec Bahía de Cádiz	Sevilha / Espanha	50,0%	PRO	862.761	25.880	2.825.285
EfaServicing, ACE	Matosinhos	100,0%	FULL	367.885	64.379	683.213
Ensul Meci-Efacec – Cogeração do Porto, ACE	Almada	100,0%	ECM	1.762.693	-364.301	1.825.209

JOINT OPERATIONS

The following amounts represent the share of the Group in the assets, liabilities and net worth of joint operations, and are included in the consolidated financial statement by integrating the ACE's.

Joint operations	2016	2015
ASSETS:		
Non current assets	2,817	4,738
Current assets	1,937,395	1,739,138
	1,940,212	1,743,876
LIABILITIES:		
Non current liabilities	53,507	32,081
Current liabilities	755,827	509,206
	809,334	541,287
Equity	1,130,879	1,202,589
Profits	2,059,542	4,410,984
Losses	2,012,550	4,146,921
Profit after tax	46,992	264,063

JOINT VENTURES

EME2 - Engenharia, Manutenção e Serviços, ACE is a joint venture in which the EPS Group holds an interest of 40%, using the equity method, as indicated in the table above.

32. MULTI-YEAR CONTRACTS

Multi-year contracts are accounted for revenue in accordance with the percentage-of-completion method, as established in Note 1.16.3

Amounts relating to multi-year contracts as at December 31, 2016 and December 31, 2015 are as follows:

	2016	2015
Income recognized in the year (Closed and open contracts)	**344,314,376**	332,046,230
Multiyear contracts still open at closing balance date:		
Accumulated costs incurred	**1,599,932,333**	1,454,153,644
Recognized margins at date	**207,809,509**	189,006,061
Inventories - Products and works in progress (Note 12)	**5,590,158**	12,859,880
Accrued income (Note 10)	**70,154,026**	69,509,811
Deferred income - advance payments	**29,503,358**	25,760,247
Deferred income - invoicing to be recognized	**58,870,662**	92,343,086

(a) Amounts not consolidated, which include multiyear contracts amounts incurred in the 2016 financial year and in previous years.

The inventories relating to multi-year contracts refer to costs incurred which have not yet been used in the work or site and consequently the margin resulting therefrom is not recognized.

The accrued income represents situations in which the stage of invoicing is lower than the stage of completion, and an accrual is made to recognize the respective margin. This situation configures a debit to the customer due to the work / installation already carried out (Note 10 - Accrued Income). When the opposite situation occurs, the stage of the invoicing grade is higher than the stage of completion, there is a deferred income, which represents a credit of the client against the developed work (Note 20 - Deferred Income), whose margin will only be recognized in subsequent years.

The reconciliation of the amount shown in the item "Income recognized in the year" concerning multi-year contracts closed or still open with the total of sales and services rendered can be shown as follows:

	2016	2015
Recognized income related to multiyear contracts (Note 1.16)	344,314,376	332,046,230
Income related to standard manufactured products	53,035,317	58,866,270
Income related to maintenance and assistance services	20,348,140	16,918,085
Other income	20,256,342	15,083,771
Total consolidated sales and services rendered	**437,954,175**	**422,914,356**

33. FEES PAID TO AUDITORS

During the financial years 2016, the EPS Group contracted the services of the Statutory Auditor PricewaterhouseCoopers & Associates and respective international network, for which it paid the following fees:

	2016	2015
Audit		
Statutory audit	197,017	261,786
Reliability assurance services	752	12,766
Other services:	197,769	274,552
Tax consultancy services	51,164	53,489
Other consultancy services	309,513	1,935
	360,677	55,424
	558,446	**329,975**

34. SUBSEQUENT EVENTS

After the date referred to in the financial statements, there were no facts worthy of note.

Leça do Balio, March 27, 2017

The Consolidation Director
José Carlos Eiras Pinto de Oliveira

The Board of Directors
Mário Filipe Moreira Leite da Silva (Chairman)
Francisco Dias Pereira de Sousa Talino (Director)
Ângelo Manuel da Cruz Ramalho (Director)
Francisco José Meira Silva Nunes (Director)
Luís Henrique Marcelino Alves Delgado (Director)
Fernando José Gomes da Mota Lourenço (Director)
António José Gonzalez Almela (Director)
João Paulo dos Santos Pinto (Director)
Rui Alexandre Pires Diniz (Director)
Miguel Maria Pereira Vilardebó Loureiro (Director)
Manuel António Carvalho Gonçalves (Director)
Vanessa Ferreira Loureiro (Director)

INDIVIDUAL FINANCIAL STATEMENTS

FINANCIAL POSITION STATEMENT AS AT 31 DECEMBER 2016 AND 2015

Euros

	Notes	2016	2015
ASSETS			
NON CURRENT ASSETS			
Tangible Fixed Assets	4	21,264	20,306
Financial Investments	5.1	373,334,608	371,687,158
Financial assets held for sale	5.2	11,132	11,132
Loans to Related Parties	17	21,146,552	0
Deferred Tax Assets	11	345,100	362,115
Total non current		**394,858,657**	**372,080,711**
CURRENT ASSETS			
Customers and Accrued Income	6	6,637	25,724
Loans to Related Parties	17	3,985,706	27,154,595
Debtors and Deferred Costs	7	7,540,486	2,023,051
Income Tax	7	266,343	0
Cash and Cash Equivalents	8	128,703	97,619
Total current		**11,927,874**	**29,300,990**
Total Assets		**406,786,530**	**401,381,701**
EQUITY AND LIABILITIES			
EQUITY			
Share Capital	9.1	285,874,030	285,874,030
Share Premium	9.1	8,000,000	8,000,000
Other Equity Instruments	9.2	35,900,000	35,900,000
Reserves and retained earnings	9.3	-6,052,270	-6,759,028
Other retained comprehensive income		0	0
Total Equity	9	**323,721,760**	**323,015,002**
NON CURRENT LIABILITIES			
Loans from Related Parties	17	73,301,275	74,220,596
Total non-current liabilities		**73,301,275**	**74,220,596**
PASSIVO CORRENTE			
Loans from Related Parties	17	250,000	971,066
Suppliers	10	600,136	88,208
Creditors and Accrued Costs	10	8,913,359	3,086,829
Total Current Liabilities		**9,763,495**	**4,146,104**
Total Equity and Liabilities		**406,786,530**	**401,381,701**

Attached notes hereafter are an integral part of the Financial Statements

The Certified Accountant

The Board of Directors

INCOME STATEMENT BY NATURE AS AT 31 DECEMBER 2016 AND 2015

Euros

	Notes	2016	2015
Sales and Services Rendered	17.1	5,893,930	0
Third Parties Supplies	12	-2,284,015	-156,294
Personnel Expenses		-1,992,639	-550,121
Amortization and depreciation	4	-4,459	0
Other operating costs		-174,809	-15,847
Other operating gains	17.1	1,800,005	0
Operating Profit		**3,238,013**	**-722,262**
Financial Losses	13	-2,952,489	-10,349,742
Financial Gains	13	925,570	4,144,706
Profit before Tax		**1,211,093**	**-6,927,298**
Income tax – Deferred	14	-17,015	362,115
Income tax – Current	14	-487,320	-976
Net Profit	**15**	**706,758**	**-6,566,159**
Net profit per share			
Basic	15	0.01	-0.14
Diluted	15	0.01	-0.14

Attached notes hereafter are an integral part of the Financial Statements

The Certified Accountant

The Board of Directors

COMPREHENSIVE INCOME STATEMENT AS AT 31 DECEMBER 2016 AND 2015

		Euros
	2016	**2015**
Net Profit (1)	**706,758**	-6,566,159
Other Comprehensive Income (2)	**0**	**0**
Total comprehensive income for the year (1)+(2)	**706,758**	**-6,566,159**

Attached notes hereafter are an integral part of the Financial Statements

The Certified Accountant

The Board of Directors

STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2016 AND 2015

Euros

	Share Capital	Share premium	Other Equity Instrum.	Reserves and Retained Earnings	Other Comprehensive Income	Total Equity
Balance as at 1 January 2015	**233,874,030**	**0**	**0**	**-192,869**	**0**	**233,681,161**
Constitution of the company	0	0	0	0	0	0
Capital increase	52,000,000	8,000,000	0	0	0	60,000,000
Other equity instruments	0	0	35,900,000	0	0	35,900,000
Comprehensive income for the year	0	0	0	-6,566,159	0	-6,566,159
Balance as at 31 December 2015	**285,874,030**	**8,000,000**	**35,900,000**	**-6,759,028**	**0**	**323,015,002**
Balance as at 1 January 2016	**285,874,030**	**8,000,000**	**35,900,000**	**-6,759,028**	**0**	**323,015,002**
Capital increase	0	0	0	0	0	0
Other equity instruments	0	0	0	0	0	0
Comprehensive income for the year	0	0	0	706,758	0	706,758
Balance as at 31 December 2016	**285,874,030**	**8,000,000**	**35,900,000**	**-6,052,270**	**0**	**323,721,760**

Attached notes hereafter are an integral part of the Financial Statements

The Certified Accountant

The Board of Directors

CASH FLOW STATEMENT AS AT 31 DECEMBER 2016 AND 2015

			Euros
		2016	**2015**
OPERATING ACTIVITIES:			
Accounts receivable		9,590,156	0
Accounts payable		2,864,620	118,223
Paid to personnel		1,893,903	207,283
Cash Flow generated by Activities		4,831,632	(325,505)
Payment/receipt of income tax		(2,029)	(3)
Other receipts/payments related to operating activities		2,176,952	(871,012)
Cash Flow from Operating Activities [1]		7,006,556	(1,196,520)
INVESTING ACTIVITIES			
INFLOWS:			
Financial investments		8,520	0
Interests and similar income		519,172	3,819,824
		527,692	3,819,824
OUTFLOWS:			
Financial investments		1,647,450	19,998,953
Tangible assets		0	0
		1,647,450	19,998,953
Cash flow from Investing Activities [2]		(1,119,758)	(16,179,129)
FINANCING ACTIVITIES			
INFLOWS			
Obtained/granted current loans		44,121,878	271,483,486
Increase in capital, additional paid in capital and share issue premium		0	60,000,000
		44,121,878	331,483,486
OUTFLOWS:			
Obtained/granted current loans		46,452,796	305,459,768
Amortization of financial lease		0	0
Interests and similar expenses		3,524,796	8,617,661
		49,977,592	314,077,428
Cash flow from financing activities [3]		(5,855,714)	17,406,058
Change in cash and cash equivalents [A]-[B]-[C]=[1]+[2]+[3]		**31,083**	**30,409**
Impact of exchange rates [C]		**0**	**0**
Cash and cash equivalents at the beginning of the year [B]		**97,619**	**67,210**
Cash and cash equivalents at the end of the year [A]	8	**128,703**	**97,619**

Attached notes hereafter are an integral part of the Financial Statements

The Certified Accountant

The Board of Directors

NOTES ON FINANCIAL STATEMENTS

A. GENERAL INFORMATION

Efacec Power Solutions SGPS, S.A. ("Efacec Power Solutions" or "EPS") is a limited liability company with registered offices at Arroteia, Parish of Leça do Balio, Guifões and Custóias, Municipality of Matosinhos, Portugal. EPS was incorporated on August 14, 2014, having as object the management of shareholdings as an indirect form of performing economic activities. The formation of Efacec Power Solutions was part of the restructuring process that Efacec Capital, SGPS, S.A. ("Efacec Capital") initiated from the end of 2013, and which continued throughout 2014, in order to align the corporate structure of the Efacec Group with covered market segments and target geographies. At the end of 2014, Efacec Power Solutions became by itself a group of companies for the development of activities in the fields of Energy, Engineering, Environment, Transportation and Electric Mobility solutions. The EPS Group also covers a wide network of branches and agents across 4 continents.

On 23 October 2015, the society Winterfell 2 Limited acquired at Efacec Capital a shareholding of Efacec Power Solutions and became the majority shareholder.

The financial information is presented in euros, unless indicated differently.

These Financial Statements were approved by the Board of Directors on 27 March 2017.

B. SUMMARY OF THE PRINCIPAL ACCOUNTING POLICIES

1. ACCOUNTING POLICIES

The principal accounting policies used to prepare these financial statements are described below.

1.1 BASIS OF PREPARATION

The financial statements of Efacec Power Solutions were prepared in accordance with International Financial Reporting Standards (IFRS) in force since January 1, 2016, as adopted by the European Union.

The financial statements have been prepared taking into account the historical cost convention except for financial assets and financial liabilities, which are recorded at their fair value.

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of some important accounting estimates. It also requires that the Governing Bodies practice their judgment in the process applied to the accounting policies of the EPS Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

The standards, interpretations and revisions issued by the different bodies that oversee the implementation of International Financial Reporting Standards - IASB, IASC, SIC and IFRIC - are listed below, together with the date of application and approval by the European Union.

Description	Changes	Effective date
1. EFFECTIVE AMENDMENTS TO STANDARDS AS AT 1 JANUARY 2016		
IAS 1 – Presentation of financial statements	Review of disclosures under the “Disclosure initiative” IASB project	01/01/2016
IAS 16 and IAS 38 – Acceptable methods of depreciation/amortisation	Clarification that revenue based methods should not be used to measure the consumption of fixed and intangible assets' economic benefits	01/01/2016
IAS 16 and IAS 41 – Agriculture: bearer plants	Bearer plants are included within the scope of IAS 16, measured either at cost or revaluated amounts	01/01/2016
IAS 19 – Defined benefit plans	Accounting for contributions independent of years of service	01/02/2015
IAS 27 – Separate financial statements	Option to measure investments in subsidiaries, joint ventures and associates using equity method	01/01/2016
IFRS 11 – Joint arrangements	Accounting for acquisition of interest in a joint operation that is a business	01/01/2016
Amendments to IFRS 10, 12 and IAS 28: Investment entities – applying consolidation exception	Investment entities' exemption applies to an intermediate parent that is a subsidiary of an investment entity	01/01/2016
Annual improvements to IFRS's 2010 – 2012	Clarifications: IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16 and IAS 24	01/01/2018
Annual improvements to IFRS's 2012 – 2014	Clarifications: IFRS 5, IFRS 7, IAS 19 and IAS 34	01/01/2018
2. NORMAS QUE SE TORNAM EFETIVAS, EM OU APÓS 1 DE JANEIRO DE 2017, JÁ ENDOSSADAS PELA UE		
IFRS 9 – Financial instruments	New standard for the accounting of financial instruments'	01/01/2018
IFRS 15 – Revenue from contracts with customers	Revenue recognition for the provision of goods or services, following a five step approach	01/01/2018
3. STANDARDS (NEW AND AMENDMENTS) AND INTERPRETATIONS THAT WILL BECOME EFFECTIVE, ON OR AFTER 1 JANUARY 2017, NOT YET ENDORSED BY THE EU		
3.1 Standards		01/01/2017
IAS 7 – Cash flow statement	Reconciliation of changes in financing liabilities with Cash flows for financing activities	01/01/2017
IAS 12 – Income taxes	Accounting for deferred tax assets on assets measured at fair value, the impact of deductible temporary differences in future taxable income estimates and the impact of restrictions on the recoverability of deferred tax assets	01/01/2018
IAS 40 – Investment property	Clarification that evidence of the change in use is required, when assets are transferred to, or from investment properties category	01/01/2018
IFRS 2 – Share-based payments	Measurement of cash-settled share-based payments, accounting for modifications and classification as equity-settled share-based payments when employer withholds tax	01/01/2018
IFRS 4 – Applying IFRS 4 with IFRS 9	“Temporary exemption for insurance companies only, from applying IFRS 9 for annual periods beginning before 1 January 2021 Overlay approach for assets within IFRS 4 that qualify as FVTPL under IFRS 9 and at amortised cost under IAS 39, being the measurement difference reclassified to OCI.”	
Amendments to IFRS 15 – Revenue from contracts with customers	Identification of performance obligations, timing of revenue recognition from licenses of IP, change to principle versus agent guidance, and new practical expedients on transition	01/01/2018
IFRS 16 – Leases	New definition of lease. New accounting of lease contracts to lessees. No major changes to lessors lease accounting	01/01/2019
Annual improvements to IFRS's 2014 - 2016	Clarifications: IFRS 1, IFRS 12 and IAS 28	01-01-2017 /01-01-2018
3.2 Interpretations		
IFRIC 22 – Foreign currency transactions and advance consideration	Foreign exchange rate to apply when consideration is paid or received in advance	01/01/2018

We do not estimate significant impact for the company resulting from the adoption of these Standards.

1.2 TANGIBLE ASSETS

Tangible assets are stated at historical cost, less depreciation, including all expenditures directly attributable to the acquisition of property.

Subsequent costs are included in the carrying amount or recognized as a separate asset, as appropriate, only when it is probable that economic benefits will flow to the company and the cost can be measured reliably. The other repairs and maintenance costs are recognized as expenses in the period they incur.

Revaluations are recognized in equity under Revenue. Every year, the difference between the depreciation of the revalued asset (recorded as cost) and the depreciation of its original amount is transferred from Revaluation Reserves to Retained Earnings.

Depreciation of tangible assets is calculated by the straight-line method, on the cost or revaluation.

The depreciation process starts in the month following the month in which the asset is brought into operation, depending on their estimated useful lives, as follows:

Item	Years
Buildings and other construction	25 – 50
Plant and Equipment	8 – 16
Vehicles	4 – 5
Office Equipment	4 – 6

Assets' residual values and useful lives are reviewed and adjusted, if appropriate, at the closing date of financial statement.

Gains and/or losses on disposals and write-offs are determined by the difference between their carrying amount and value of sale or write-off, being in the latter case null and included in Income for the period.

1.3 FINANCIAL ASSETS AND ASSETS HELD FOR SALE

1.3.1 CLASSIFICATION

The company classifies its financial assets according to the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets during the initial recognition.

(a) Financial assets at fair value through profit and loss
Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling it in the short term. Derivatives are also classified under this category unless designated for hedging. Currently, EPS has no such financial assets.

(b) Loans granted and accounts receivable
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans granted and receivables are classified as current assets, except if maturities are greater than 12 months after the closing date of the financial year, in which case these are classified as non-current assets.

(c) Financial assets held to maturity
Currently, the company has no financial assets held to maturity.

(d) Financial assets available for sale
Financial assets available for sale relating to investments in equity instruments are recorded at cost when their fair value can not be reliably determined and are presented as "Investments in group companies and associates" when the Company has control or significant influence on their management.

These financial assets are classified as non-current, unless the assets expire or if management intends to sell them within 12 months after the reporting date.

1.3.2 RECOGNITION AND MEASUREMENT

Shares in group and associated companies are recorded at cost added to any eventual purchase expenses. Purchases and sales of financial assets are recognized on the trade date - the date on which the Company commits itself to purchase or sell the assets. Investments are initially recognized at fair value plus transaction costs, unless classified at fair value in the income statement. Financial assets at fair value through profit or loss are initially recognized at fair value and their transaction costs recorded in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired, or at the time the risks and benefits of their ownership are transferred. Financial assets available for sale and financial assets at fair value through results are subsequently measured at fair value. Credits and receivables are subsequently measured at amortized cost using the effective interest rate method.

Gains or losses arising from changes in fair value of financial assets classified under the category of “fair value through profit or loss” are recorded in the Income Statement as “Financial Costs” in the period in which they occur.

Customers’ account receivables and other debtors are initially recognized at their nominal value or fair value, if different, less any impairment loss.

Customer’s amounts receivable are derecognized when, substantially, transferred to another entity all the significant risks and rewards associated with the cash flows of the financial asset benefits. If the entity retains its exposure to the total variability in the present value of future net cash flows associated with the financial asset, there is not a de-recognition of the asset.

When securities classified as available for sale are sold or impairment is recorded, the cumulative value of adjustments to fair value recognized in fair value reserves is recognized in the income statement as “Gains or losses in other businesses”.

Interest on securities account classified as available for sale are calculated using the effective interest method, and recognized in the income statement under “other income”. Dividends of shares available for sale are recognized in the income statement upon the company’s determination of the right to them.

1.3.3 PRESENTATION BY NET VALUE

Assets and financial liabilities are presented in the financial statement by their net amount reported when there is a legally enforceable right to offset the recognized amounts and an intention to settle on a net basis.

1.3.4 IMPAIRMENT OF FINANCIAL ASSETS

(a) Loans granted and receivables

The adjustment for impairment of account receivables is established when there is objective evidence that the company will not receive all amounts due according to the original terms of receivables. The adjustment amount is the difference between the value presented and the present estimated value of future cash flows, discounted at the effective interest rate. The adjustment value is recognized in the income statement.

(b) Assets carried at amortized cost

The company assesses at each date of its Financial Statement whether there is objective evidence that a financial asset or group of financial assets is impaired. If financial asset or group of financial assets is impaired, impairment losses being recorded only when there is objective evidence thereof as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that such an event (or events) has an impact on the estimated future cash flows produced by the assets or group of assets that can be reliably estimated.

The criteria used by the company to determine whether there is objective evidence of an impairment loss include:

- Significant financial difficulties of the issuer or debtor;
- Breach of contract provisions, such as due date of payment of interests or capital;
- The possibility of the debtor opening for bankruptcy or undergoing a financial restructuring;

- The disappearance of an active market for that financial asset for reasons of financial difficulties, or
- Observable data, indicating a measurable decrease in the estimated future cash flows from a portfolio of financial assets, a decrease that took place after the initial recognition of those assets, but that cannot yet be identified with the individual financial assets. These data include:

  i) Adverse changes in the payment status of debtors from that portfolio, and

  ii) National or local economic conditions in relation with the payment failure of the assets in the portfolio.

The company first assesses whether there is evidence of impairment.

The amount of the loss is measured as the difference between the value at which the asset is measured and the current estimate of future cash flows (excluding future credit losses that have not been registered) discounted at the effective interest rate. The value to which the asset is measured is reduced, and the amount of the loss is recognized in the income statement. As a practical expedient, the company can measure the amount of impairment based on the fair value of the instrument, using an observable market price. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be objectively attributed to an event which occurred after the impairment was recorded (such as improved credit rating of the debtor), then the previously recognized impairment is reversed in the consolidated income statement

(c) Assets classified as available for sale

(c1) The company assesses at the end of each reporting period date whether there is objective evidence that a financial asset or group of financial assets is impaired. For debt securities, the company uses the criteria described above in (a). In the case of equity instruments of other entities classified as available for sale, a significant or prolonged decline in the fair value of shares relative to their costs also constitute evidence of impairment. If such evidence exists for assets available for sale, the cumulative loss - measured as the difference between the acquisition cost and the fair value at date, less any impairment loss previously recognized in profit or loss account for the financial asset in question - is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. If, in a subsequent period, the fair value of a debt security rated available for sale increases and the increase can be objectively attributed to an event occurring after the impairment loss was recognized in the income, then the impairment loss is reversed through the income statement.

(c2) The company assesses the investments made in companies of the group and associates when there is evidence that a financial asset is impaired and recognized in the income statement possible impairment losses. The company checks, on each financial statement date, where there is objective evidence of impairment of any financial investment. If there is such evidence, the accumulated loss, calculated by the difference between the balance sheet value and the current fair value, is recognized in the income statement of the period in which the impairment is verified. An impairment loss is recognized for the excess of the amount of the asset book value over its recoverable amount. The recoverable amount is the higher of the fair value of an asset less selling costs and its value in use. In determining the value in use, the estimated future cash flows are discounted using a discount rate that reflects current market and reviews of specific risk of the asset.

Income from financial investments in group companies and associates (dividends received) are recorded in the results of the period in which the respective distribution is announced.

1.4 CASH AND CASH EQUIVALENTS

The item “Cash and cash equivalents” includes cash, bank deposits and other short-term investments with high liquidity and with initial maturities up to 3 months. Bank overdrafts are presented in the financial statement, in current liabilities, under the heading “Loans”.

1.5 EQUITY

Ordinary shares are classified as equity.

Additional costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, of capital inflows.

1.6 DEBTS TO FINANCIAL INSTITUTIONS AND RELATED PARTIES

Loans obtained are initially recognized at their nominal value. Loans are subsequently stated at amortized cost. Any difference between the proceeds (net of transaction costs) and the amortized value is recognized in the income statement over the period of the loan using the effective interest method.

Loans obtained are classified as current liabilities unless the company has an unconditional right to defer settlement of the liability for at least 12 months after the date of the financial statement closing date.

Interests and other financial charges related to loans are generally recognized as expenses in accordance with the accrual accounting principle.

Interests and other financial charges on loans, which are directly related to the acquisition, construction or production of fixed assets, are capitalized as part of the cost of the asset. The capitalization begins after the start of preparation of the construction or development of the asset and stops when the asset is ready for use or when the project is suspended. Any income earned on loans, directly related to a specific investment is deducted from financial costs eligible for capitalization.

1.7 PAYABLES TO SUPPLIERS AND OTHER CREDITORS

Payables to suppliers and other creditors are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method. The suppliers' bills are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, the suppliers' bills are presented as non-current liabilities.

1.8 CURRENT AND DEFERRED INCOME TAX

In 2016 Efacec Power Solutions and its national subsidiaries are subject to the Tax Consolidation Regime (RETGS) applicable to groups that include companies in which they hold shares of 75% or above and which comply with the conditions of Article 63 of the Corporate Income Tax Code. The consolidated tax is determined by the arithmetic sum of the taxable gains and losses as determined by each company on an individual basis.

The income tax of the company includes current tax and deferred tax.

Current tax is calculated based on current tax law, or substantially prevailing at the date of the financial statement in countries where the subsidiaries and associates operate and generate taxable income. The management bodies review periodically their analysis in this area and recognize provisions for probable tax contingencies for cases under review, as well as possible adjustments made by tax authorities. These provisions are recorded at the amount expected to be paid to the tax authorities.

Deferred tax is calculated based on the value of temporary differences between the carrying amounts of assets and liabilities and their tax base. However, deferred tax is not recorded if it occurs from the initial recognition of an asset or a liability in a transaction, which does not constitute a business combination that at the time of the transaction does not affect the income and costs, not accounting or not taxable.

Deferred tax is determined in the light of current legislation and rates, or substantively in force at the reporting date, and are expected to apply when performing the deferred tax asset or settlement of the deferred tax liability.

Deferred tax assets are recognized only when the existence of future taxable income is expected, under which the temporary difference can be utilized.

Assets and deferred tax liabilities are presented in the financial statement at net value when there is a legally enforceable right to offset current assets and deferred tax liabilities by this amount.

Deferred taxes are classified as non-current, as shown in the financial statement.

The tax rate which formed the basis for the determination of the deferred taxes included in the Financial Statement as at December 31, 2016 is provided in the legislation for the current year – 21 % plus the maximum rate of municipal taxes, 1,5 % of taxable income.

1.9 PROVISIONS

Provisions are measured at fair value of the costs that are expected to occur in order to settle the obligation using a pre-tax rate that reflects the time value of money, as well as specific risks to the liability, as assigned by market. Provisions are not recognized for future operating losses.

1.10 RECOGNITION OF REVENUE

Revenue comprises the fair value of sales of goods and services, net of taxes and trade discounts, and after elimination of internal sales.

Revenues are recognized at fair value of the amount received or receivable for the sale of goods and services in the ordinary course of business of the company. Sales are recognized at net value of the amount of value added tax, returns and discounts.

The company recognizes revenue when the amount can be measured reliably, when it is probable that future economic benefits give input on the entity and when specific criteria are met for each of the group's activities as described below. The company bases its estimates on historical results, taking into consideration the type of customer, as well as the transaction type and its characteristics.

PROVISION OF SERVICES

The provision of services is recognized in the accounting period in which they are rendered, by reference to the stage of completion of the transaction at the date of accounts closing.

1.11 DISTRIBUTION OF DIVIDENDS

The distribution of dividends to shareholders is recognized as a liability in the financial statements of the company in the period in which the dividends are approved by the shareholders at the General Meeting.

1.12 CONTINGENT ASSETS AND LIABILITIES

Contingent liabilities for which an outflow of resources embodying economic benefits is only possible, are not recognized in the financial statements but disclosed in the notes, unless the possibility of the outflow of resources embodying economic benefits is remote, in which case they are not subject to disclosure. We recognize provisions for liabilities that meet the conditions laid down in Note 1.9.

Contingent assets are not recognized in the financial statements but are disclosed in the Notes to the financial statements when a future economic benefit is probable.

1.13 SUBSEQUENT EVENTS

Events subsequent to the balance sheet date that provide additional information about conditions existing on that date are reflected in the financial statements. Events subsequent to the balance sheet date, which provide information on conditions that arose after that date, are disclosed in the annex to the financial statements, whether material.

1.14 CASH FLOW STATEMENT

The cash flow statement is prepared in accordance with the direct method. The company classifies assets with maturity of less than three months and for which the risk of change in value is insignificant under “Cash and cash equivalents”.

The cash flow statement is divided into operating activities, investing activities and financing activities. Operating activities include cash receipts from customers and payments to suppliers, employees and other payments related to operating activities.

Cash flows included in investment activities include acquisitions and disposals of investments in subsidiaries, received cash and payments resulting from the purchase and sale of tangible and intangible assets.

Financing activities include cash receipts and cash payments to equity capital and loans, including bank overdrafts. They also include payments for interest, dividends and finance leases.

1.15 FINANCIAL RISK MANAGEMENT

There are no significant factors of financial risk, particularly in terms of activities exposed to foreign exchange risk, or significant credit risk concentrations. There are not used any financial instruments to hedge this risk.

2. ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of financial statements requires that management applies judgments and estimates that affect the reported amounts of revenues, expenses, actives and liabilities and disclosures at the date of the financial statements.

These estimates are determined by the judgment of the company management, based on: (i) the best information and knowledge of present events and in some cases reports of independent experts (ii) the actions that the company considers it may develop in the future. However, at the date of completion of operations, the results may differ from estimates.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are presented below.

2.1 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

To determine the fair value of a financial asset or liabilities where an active market exists, the market price is used. When there is no active market, which is found in some of the assets and liabilities of the company, fair value valuation techniques are used which are generally accepted, based on market assumptions.

The Company utilizes valuation techniques for financial instruments not quoted as derivatives, financial instruments at fair value through profit or loss and assets available for sale. The evaluation methods which are used most often are based on models of discounted cash flow and options models, including, for example, interest rates, exchange rates, prices of raw materials and volatility curves. Currently, the company does not detain financial instrument that are not quoted.

2.2 INCOME TAX

The company recognizes liabilities for additional taxes that may result from review by the tax authorities. When the outcome of these situations is different from the amounts initially recorded, the differences will impact the income tax and deferred taxes in the period in which such differences are identified.

Additionally, the company recognizes deferred tax assets on losses, to the extent that future taxable profits are expected.

This evaluation requires the use of estimates and future taxable profits which differ from review held every closing date. The difference will impact the income tax.

2.3 RECOGNITION OF PROVISIONS

The Company periodically reviews the obligations arising from past events that should be recognized or disclosed. The subjectivity involved in determining the likelihood and amount of internal resources needed to meet obligations may result in significant adjustments due to changes in the assumptions made, or due to future recognition of provisions previously disclosed as contingent liabilities.

Management exercises significant judgment in determining whether a present obligation exists as a result of a past event, or whether it is likely, on the date of the financial statements, that from past events may result outflows, and if the amount of the obligation can be estimated reliably. The Company periodically reviews the status of these processes using counselling, both internal and external. These decisions are subject to change as new information becomes available. The amount of provision may change in the future due to new developments in this area in particular.

2.4 IMPAIRMENT OF RECEIVABLES

The credit risk on receivables is valued at the closing date, taking into account the knowledge of the client and its risk profile. Accounts receivable are adjusted based on the assessment made by the management of the estimated collection risks at the reporting date, which may differ from the actual risks incurred.

C. RISK MANAGEMENT

3. MANAGEMENT OF FINANCIAL RISK

3.1 FINANCIAL RISK FACTORS

The company's activities are exposed to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. The company's risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the company, being possible to use various financial instruments to minimize the risks associated with its operations.

The financial risk management is carried out by the Corporate Finance Management of the EPS Group under policies and guidelines approved by the Board of Directors. This Finance Management is responsible for identifying, assessing and hedging the financial risks in close cooperation with the operating units of the group. Principles for overall risk management are established by the Board of Directors, as well as policies covering specific areas, such as foreign exchange risk, price risk, interest rate risk, and credit risk, use of derivative financial instruments and non-derivative and investment of surplus liquidity. The Board of Directors carries out a very close monitoring of such transactions.

3.1.1 MARKET RISKS – INTEREST RATE

The risk of the company's interest rate comes mainly from loans, since the company has no derivatives from interest rate or long-term earning assets. Loans contracted with variable interest rates, exclusively denominated in euros, expose the Company to the risk of changes in cash flows.

Exposure to interest rate risk is monitored dynamically. In addition to the assessment of future expenditures, based on forward rates, sensitivity tests to variations in the level of interest rates are carried out. The company is essentially exposed to the interest rate of the euro curve.

For each analysis, regardless of the currency, the same changes to interest rate curves are used. The analyses are performed for the net debt, i.e., deposits and investments in financial institutions are deducted. Simulations are performed based on the net value of debt and the fair value of derivative financial instruments, if any, reference dates and the respective change in interest rate curves.

On the date of the financial statement, the company had total borrowings amounting to 73,5 million euros, and loans granted amounting to 25,1 million euros, totally with related parties. If interest rates on loans and deposits had been 0.25% higher/lower, considering all other constant variables, the result of the financial year before tax would have been lower/higher by 121 thousand euros, respectively. The equity capital would not have been affected. These effects are mainly due to the higher or lower interest expense on floating rate loans.

3.1.2 LIQUIDITY RISK

Cash flow forecast is performed by the company to ensure the maintenance of adequate cash to meet operational level needs, while taking into account the impact of possible financial facilities. This forecast takes into account the financing plans for the company debts, compliance with internal level of balance sheet ratios objectives and, if applicable, compliance with external regulatory or legal requirements - for example, restrictions on foreign currency, and compliance debt covenants, including: Cross default, Pari Passu, Negative Pledges, ratios of debt and equity, change of shareholders and other related operational activities and the legal, fiscal and operational obligations of the company.

Cash surplus, beyond those necessary to maintain balance in the management of working capital, are managed taking into account the instructions of the EPS Group with respect to maturity, liquidity and counterparty. Surplus cash held by the Company is invested, choosing instruments with appropriate maturities or sufficient liquidity and that provide sufficient margin as determined by the above-mentioned forecasts.

At the date of the financial statements, the Company held cash and current deposits amounting to 98 thousand euros, which were expected to readily generate capital inflows able to facilitate the management of liquidity risk. There are not negotiated credit facilities or derivative financial instruments. Financial liabilities of the company are almost exclusively with related party. There are also significant financial assets, also with related parties.

3.2 CAPITAL RISK MANAGEMENT

The company seeks to maintain an adequate level of capital that allows it, not only to ensure its continuity and development, but as well to provide adequate returns for shareholders and optimize the cost of capital.

The company may adjust the amount of dividends payable and the return of capital to shareholders or make an issue of new shares or debt in order to maintain or adjust its capital structure.

In accordance with the practices of the industry market, the balance of the capital structure is monitored based on financial leverage (gearing) ratio, calculated in accordance with the ratio Net Debt/Total Equity. Net debt comprises total loans (including banking and related companies' current and non-current loans as shown in the financial statement) less cash and cash equivalents, other financial investments and current loans. The total equity consists of equity as presented in the financial statements, plus net debt.

The gearing ratio on December 31, 2016 and 2015 shows the following calculation:

		31.12.2016	**31.12.2015**
Debt to credit institutions		0	0
Debts to related parties	(Note 17)	73,551,275	75,191,662
		73,551,275	75,191,662
– Cash and cash equivalents	(Note 8)	128,703	97,619
– Loans to related parties	(Note 17)	25,132,258	27,154,595
Net debt		48,290,315	47,939,447
Equity		323,721,760	323,015,002
Total Equit		372,012,075	370,954,449
Gearing		**13%**	**13%**

3.3 FINANCIAL INSTRUMENTS BY CATEGORY

On 31 December 2016 and 2015, financial assets were classified in the following categories:

Assets as per Balance Sheet	Notes	Loans and Receivables	Held for sale	Non financial assets	Total
31 DECEMBER 2016					
Financial Investments and Assets held for sale	5	106,775	11,132		117,907
Loans to Related Parties	17	25,132,258			25,132,258
Trade receivables and accrued income	6	6,637		0	6,637
Debtors and deferred costs	7	5,783,519		2,023,310	7,806,829
Cash and cash equivalents	8	128,703			128,703
		31,157,891	**11,132**	**2,023,310**	**33,192,333**
31 DECEMBER 2015					
Financial Investments and Assets held for sale	5	106,775	11,132		117,907
Loans to Related Parties	17	27,154,595			27,154,595
Trade receivables and accrued income	6	0		25,724	25,724
Debtors and deferred costs	7	418,699		1,604,352	2,023,051
Cash and cash equivalents	8	97,619			97,619
		27,777,689	**11,132**	**1,630,077**	**29,418,897**

Regarding financial liabilities, their breakdown by category was as follows:

Liabilities as per balance sheet	Notas	Outros pass. financ. ao custo amortizado	Passivos não abrangidos pela IFRS7	Total
31 DECEMBER 2016				
Loans from Related Parties	17	73,551,275		73,551,275
Suppliers	10	600,136		600,136
Creditors and Accrued Costs	10	7,701,503	1,211,856	8,913,359
		81,852,914	**1,211,856**	**83,064,770**
31 DECEMBER 2015				
Loans from Related Parties	17	75,191,662		75,191,662
Suppliers	10	88,208		88,208
Creditors and Accrued Costs	10	2,178,109	908,719	3,086,829
		77,457,980	**908,719**	**78,366,699**

C. NOTES CONCERNING FINANCIAL STATEMENTS AS AT 31 DECEMBER 2016 AND 2015

4. TANGIBLE FIXED ASSETS

The amount recorded under this item refers entirely to office equipment.

Administrative Equipment	31.12.2016	31.12.2015
Opening Net Book Value	20,306	0
Additions	5,418	20,306
Depreciation allocations	-4,459	0
Closing Net Book Value	**21,264**	**20,306**

5. INVESTMENTS IN CAPITAL INSTRUMENT AND FINANCIAL ASSETS HELD FOR SALE

5.1 INVESTMENTS IN GROUP COMPANIES AND ASSOCIATES

This item includes the value of the holdings, additional paid-in capital and loans to group companies and associates.

Equity investments in group companies and associates are recorded at acquisition cost (Note 1.3.2).

MOVEMENTS OCCURRED IN 2016

During 2016, the Company provided additional paid-in capital to its subsidiary Efacec Electric Mobility, S.A., in the amount of 1,500 thousand euros and made a capital increase of 147 thousand euros in the subsidiary Power Solutions Brasil, Ltda.

	31.12.2016	31.12.2015
Opening Balance	371,687,158	363,044,137
Increased shareholding	147,450	8,643,022
Other Equity Instruments	1,500,000	0
Closing Balance	**373,334,608**	**371,687,158**

The additional paid-in capital is ruled by the regulation of supplementary payment and, as such, do not bear interest.

The company's investment in Group companies and associated companies, none of them listed on the stock exchange, is as follows:

						31.12.2016
	Financial Investments	Other Equity Instruments	Loans	% Part	Equity	Net Income
Capital instruments						
Efacec Marketing Internacional, S.A.	2,400,000	1,600,000		100.00%	2,846,912	-46,940
Efacec Engenharia e Sistemas, S.A.	99,500,000	32,500,000		100.00%	69,885,956	3,804,277
Efacec Electric Mobility, S.A.	13,350,000	1,500,000		100.00%	3,500,238	919,834
Efacec Serviços Corporativos, S.A.	50,000			100.00%	-1,414,713	-1,868,121
Efacec Energia, S.A.	124,078,188	58,811,255		100.00%	90,685,967	4,907,388
Efacec Angola, Lda.	1,407,215			98.33%	-7,492,280	-1,821,059
Efacec Moçambique, Lda.	15,255	6,582,000		84.75%	188,315	-347,087
Efacec Praha s.r.o.	6,100,000			100.00%	1,499,231	6,871
Efacec USA, Inc.	1,500,000			100.00%	1,229,553	-569,026
Efacec Chile, S.A.	213,570			96.92%	1,531,773	703,929
Efacec Central Europe Limited SRL	7,100,000			100.00%	672,141	-518,696
Efacec Contracting Central Europe GmbH	9,451,597			100.00%	1,733,293	-840,200
Efacec Índia Pvt. Ltd	3,259,878			93.18%	2,223,431	-188,946
Efacec Equipos Eléctricos, S.L.	2,870,000			100.00%	2,776,989	326,582
Power Solution Brasil, Ltda.	938,875			99.00%	505,501	-16,743
Credits			106,775			
Efacec Contracting Central Europe GmbH						
Total	**272,234,578**	**100,993,255**	**106,775**			
		373,334,608				

						31.12.2015
	Financial Investments	**Other Equity Instruments**	**Loans**	**% Part**	**Equity**	**Net Income**
Capital instruments						
Efacec Marketing Internacional, S.A.	2,400,000	1,600,000		100.00%	2,893,851	233,736
Efacec Engenharia e Sistemas, S.A.	99,500,000	32,500,000		100.00%	66,182,063	1,894,755
Efacec Electric Mobility, S.A.	15,000,000			100.00%	1,833,273	-1,290,082
Efacec Serviços Corporativos, S.A.	50,000			100.00%	453,407	280,310
Efacec Energia, S.A.	122,428,188	58,811,255		100.00%	85,038,317	-935,567
Efacec Angola, Lda.	1,407,215			98.33%	-6,632,779	-7,177,006
Efacec Moçambique, Lda.	15,255	6,582,000		84.75%	730,672	-58,636
Efacec Praha s.r.o.	6,100,000			100.00%	1,491,913	131,763
Efacec USA, Inc.	1,500,000			100.00%	1,760,456	-190,670
Efacec Chile, S.A.	213,570			96.92%	664,192	344,220
Efacec Central Europe Limited SRL	7,100,000			100.00%	660,941	-172,085
Efacec Contracting Central Europe GmbH	9,451,597			100.00%	2,575,928	-1,562,710
Efacec Índia Pvt. Ltd	3,259,878			93.18%	2,563,717	-259,503
Efacec Equipos Eléctricos, S.L.	2,870,000			100.00%	2,450,407	593,085
Power Solution Brasil, Ltda.	791,425			99.00%	264,744	0
Credits						
Efacec Contracting Central Europe GmbH			**106,775**			
Total	**272,087,128**	**99,493,255**	**106,775**			
		371,687,158				

The credit on Efacec Contracting Central Europe has the nature of supply and bear interest at interest rate indexed to Euribor, plus the spread used in the Group's borrowings.

IMPAIRMENT TESTS

At year end, impairment tests are performed for the main investments in group companies. The tests are performed in order to evaluate the recoverability of the investment, considering the historical performance and/or business development expectations.

The ratings are based on cash flows projections based on financial budgets approved by management covering a five-year period, which are discounted at a rate calculated in accordance with the CAPM (Capital Asset Pricing Model). After this five-year period, cash flows are extrapolated using growth rates estimated on business development expectations.

The preparation of the business plans was aligned with the Group's current structure and with the benchmark used for the management of the different business units. The benchmark changed when compared to 2015.

The international subsidiaries Efacec Central Europe and Power Solutions Brasil have activities strongly concentrated in the Automation business segment. Likewise, the subsidiaries Efacec India, Efacec Equipos Eléctricos and Efacec Praha also carry out their activity in the Switchgear business unit. The management of these subsidiaries is under the operational management of the business units to which they report, and driven from Portugal, acting mainly as representations of Efacec Energia's activity in the respective markets. Under this assumption, the business plans of these subsidiaries were consolidated at Efacec Energia.

For identical reasons the international subsidiaries Efacec Contracting Central Europe, Efacec Algérie and Efacec Chile were consolidated in Efacec Engenharia e Sistemas. These three legal entities operations are strongly focused on Contracting business segment; and are particularly dependent on Efacec Engenharia e Sistemas, with regard to references, specific technical skills and financial resources, working mainly as extensions of Efacec Engenharia e Sistemas activity in the Algerian market and in some Central Europe countries.

The assumptions used in the impairment tests performed on December 31, 2016 were as follows:

	2016				2015			
	Revenue growth rate	EBITDA margin	Discount rate bef. taxes	Perpetuity growth rate	Revenue growth rate	EBITDA margin	Discount rate bef. taxes	Perpetuity growth rate
Efacec Energia	4.4%	8.6%	9.0%	1.9%	11.7%	7.9%	8.9%	0.0%
Efacec Engenharia	5.6%	7.0%	9.5%	1.8%	10.2%	6.5%	10.2%	0.0%
Efacec Electric Mobility	29.7%	12.7%	12.4%	2.1%	22.7%	11.4%	12.2%	1.0%
Efacec Moçambique	16.7%	8.7%	11.6%	5.6%	9.7%	7.4%	13.7%	2.5%
Efacec Angola	20.1%	8.2%	16.0%	2.0%	17.7%	5.3%	17.4%	1.0%

In general terms, discount rates have decreased in 2016. In the African subsidiaries (Angola and Mozambique) it is considered the weight of the different markets to which the company is exposed, which allows to mitigate the risk and thus reduce the discount rate.

No impairment arose from the tests performed.

SENSITIVITY ANALYSES

Evaluations were still subject to sensitivity analyses to the main variables used in order to test the resistance of the recoverable value of the assets to unfavourable changes of each. Variables were thus subject to the following impacts:

	Revenue growth rate	EBITDA margin	Discount rate bef. taxes	Perpetuity growth rate
Change in assumptions	-10.0%	-10.0%	+1/+2 pp	-1.0 pp

The impacts produced by these variations do not generate any impairment.

The investment in Angola is sensitive on changes in the revenue growth rate, which indicate signs of impairment. Nevertheless, the revenue budget which supports the projections is considered to be sustainable, based on assigned orders which support the 2017 revenue projection and includes relevant projects for the future development of this subsidiary.

5.2 NET ASSETS AVAILABLE FOR SALE

	Value	% Part	Equity
NET – Novas Empresas e Tecnologias, S.A.	11,132	0.98%	n.d.

6. CUSTOMERS AND ACCRUED INCOME

Details of this item as at 31 December 2016 and 2015 are demonstrated below:

	31.12.2016	31.12.2015
Customers – Related Parties (Note 17.2)	6,637	0
Account receivables – net	**6,637**	**0**
Accrued income – not covered by IFRS 7	0	25,724
Total	**6,637**	**25,724**
* Non Current	0	0
* Current	6,637	25,724

The fair value of accounts receivable does not differ from their book value.

7. OTHER RECEIVABLES AND DEFERRED COSTS

Details of this heading as at December 31, 2016 and 2015 are as follows:

	31.12.2016	31.12.2015
Other Debtors – several	2,716	0
Other Debtors – Related Parties (Note 17.2)	5,780,803	418,699
Other Debtors– Financial Assets IFRS 7	5,783,519	418,699
Other Debtors not covered by IFRS 7	1,561,073	1,570,098
State and Other Public Entities	435,523	34,254
Deferred Costs	26,714	0
Total	**7,806,829**	**2,023,051**
* Non Current	0	0
* Current	7,540,486	2,023,051
* Income Tax	266,343	0

The balance of Other debtors – related parties includes credits on the transfer of receivables to MGI Capital in accordance with the shareholders' agreement signed on 23 October 2015.

The value of other debtors not covered by IFRS 7 relates to advances payment made by Efacec Angola in order to transfer this participation from Efacec Capital to EPS.

State and Other Public Entities caption breaks down as follows:

	31.12.2016	31.12.2015
Income Tax	435,523	3
Value Added Tax to be recovered	0	34,251
	435,523	**34,254**

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents	31.12.2016	31.12.2015
Cash and Current deposits	128,703	97,619

9. EQUITY

9.1 EQUITY AND SHARE PREMIUM

On December 31, 2016, the share capital, fully paid, was represented by 57,174,806 ordinary shares with a nominal value of 5 euros. The shareholders' breakdown on that date and at the end of the previous year was as follows:

	31.12.2016		31.12.2015	
	No. shares	%	No. shares	%
Winterfell 2 Limited	41,525,275	72.6%	41,525,275	72.6%
MGI Capital, SGPS, S.A.	15,649,531	27.4%	15,649,531	27.4%
Total	**57,174,806**	**100.0%**	**57,174,806**	**100.0%**

The company has no shares of its own.

9.2 ADDITIONAL PAID IN CAPITAL AND OTHER EQUITY INSTRUMENTS

Efacec Power Solutions has also additional paid-in capital amounting to 35,9 million euros, provided by the shareholders in proportion to their holdings. The additional paid in capital is ruled by the regulations of supplementary payments.

9.3 RESERVES AND ACCUMULATED INCOME

This item is composed fundamentally by the profit for the year and retained earnings.

10. SUPPLIERS, CREDITORS AND ACCRUED COSTS

This item breaks down as follows:

Suppliers	31.12.2016	31.12.2015
Suppliers – current account	708,472	82,949
Suppliers – related parties (Note 17.2)	2,242	6,177
Suppliers – invoices received pending from approval	-110,578	-918
Total	600,136	88,208
* Non current	0	0
* Current	600,136	88,208

Current debts to suppliers and other creditors, are entirely due within 90 days, a situation which reflects the normal conditions negotiated with the company's suppliers.

The balance is denominated in euros.

The detail of the Other creditors item at December the 31st 2016 and 2015 is as follows:

Other Creditors	31.12.2016	31.12.2015
Other Creditors – related parties (Note 17.2)	7,684,519	2,153,970
Other Creditors – Financial Assets IFRS 7	7,684,519	2,153,970
Other Creditors not covered by IFRS 7	574,438	574,537
State and Other Public Entities	343,791	84,914
Accrued Costs:	310,611	273,408
Accrued Costs – Payable Remunerations	293,627	249,268
Accrued Costs – Others	16,984	24,140
Total	**8,913,359**	**3,086,829**
* Other Creditors – Non Current	0	0
* Other Creditors – Current	8,913,359	3,086,829

The balance of the item "State and other public entities" breaks down as follows:

	31.12.2016	31.12.2015
Income Tax	0	976
Value Added Tax – Due	247,846	0
Social Security Contributions	43,647	41,590
Personal Income Tax	52,299	42,348
	343,791	84,914

11. DEFERRED TAX

Assets and deferred tax liabilities are offset if the EPS company has a legally enforceable right to offset current tax assets with current tax liabilities and when the deferred taxes relate to the same tax authority.

Deferred tax assets at the date of the financial statement amounted to 345,100 euros, whose reporting period is 12 years.

	Fiscal Losses
1 January 2015	0
Charged to the income statement	362,115
31 December 2015	**362,115**
Charged to the Income Statement	-17,015
31 December 2016	**345,100**

D. NOTES TO THE INCOME STATEMENT AS AT 31 DECEMBER 2016 AND 2015

12. EXTERNAL SUPPLIES AND SERVICES

During the year ended on December 31, 2015, the main supplies and services provided by external entities were as follows:

	2016	2015
Specialised Services	1,542,078	128,812
Travel and Accommodation Expenses	211,683	2,791
Rental and Leasing	167,439	696
Publicity	104,238	312
Bank Guarantees	87,493	0
Fees	37,870	11,850
Maintenance and Repair	17,252	1,558
Fuel	16,047	20
Other Supplies and Services	99,915	10,253
	2,284,015	156,294

13. FINANCIAL INCOME

	2016	2015
Interests paid	-3,065,831	-10,343,514
Foreign currency exchange losses	115,810	84,993
Other financial costs and losses	-2,468	-6,228
Total Financial Costs and Losses	**-2,952,489**	**-10,264,748**
Interests earned	925,570	4,059,713
Total Financial Income and Gains	**925,570**	**4,059,713**
Financial Income – net	**-2,026,919**	**-6,205,036**

Interests paid and earned refer essentially to the remuneration of loans obtained/granted to companies of the EPS Group and related entities. These loans are paid in the same conditions as those paid in the market, Euribor being the reference rate (Note 17.3).

14. INCOME TAX

The breakdown of the income tax recorded in the financial statement is as follows:

	2016	2015
Current tax	487,264	976
Defered tax (Note 11)	17,015	-362,115
Income tax	504,279	-361,139
Previous years taxes	56	0
	504,335	-361,139

The reconciliation of the tax is as follows:

	2016	2015
Earnings before taxes	1,211,093	-6,927,298
Notional Tax Rate	22.5%	22.5%
Notional Tax	272,496	-1,558,642
Permanent Differences:		
Costs non-deductible for tax purposes (a)	179,544	1,170,662
Autonomous Taxation	35,224	976
Prior year adjustments	17,015	0
Tax rate differences (b)	0	25,865
Income Tax	504,279	-361,138
Effective Rate	41.6%	n.a.

(a) This item refers to financial charges not deductible for exceeding the legal tax limit.
(b) This item respect the differences in deferred income tax rates applicable in the calculation of deferred tax assets for tax losses.

15. EARNINGS PER SHARE

BASIC

Basic earnings per share is calculated by dividing the profit attributable to shareholders by the weighted average number of ordinary shares issued during the year, excluding the eventual shares detained by EPS (Note 9).

	2016	2015
Profit attributable to the company's equity holders	706,758	-6,566,159
Weighted average number of ordinary shares in issue	57,174,806	48,428,262
Basic earnings per share (Euro per share)	0.01	-0.14

DILUTED

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding ordinary shares to incorporate the effects of the conversion of all dilutive potential ordinary shares, when applicable. In the 2016 years and 2015 there is no dilutive effect.

E. OTHER NOTES

16. CONTINGENCIES

EPS has contingent liabilities in respect of guarantees issued. On December 31, 2015, the Company had a liability arising from a guarantee issued to finance a subsidiary abroad, amounting to 2,471,502 euros.

	31.12.2016	31.12.2015
Financial guarantees	4,086,042	3,668,329

17. TRANSACTIONS WITH RELATED PARTIES

We identify hereby the transactions with related parties (Group companies, Associates, Shareholders and Board Directors), and debit and credit balances with these same entities existing at end of year.

17.1 TRANSACTIONS PERFORMED

Current transactions:	**2016**	**2015**
Related parties		
Operating income and gains (a)	7,693,930	0
Operating costs and losses	3,715	0
Financial income and gains	925,570	595,960
Financial costs and losses	3,065,820	10,322,478
Shareholders		
Financial income and gains	0	3,463,741
	5,549,965	**-6,262,777**

(a) This caption includes management fees amounting to 5,9 million euros and 1,8 million euros of rents from subsidiaries.

17.2 CLOSING BALANCES RESULTING FROM BUSINESS AND FINANCIAL TRANSACTIONS

	31.12.2016	**31.12.2015**
DEBTS OF RELATED PARTIES:		
Related parties		
Financial loans (a)	106,775	106,775
Non current loans	21,146,552	0
Current loans	3,261,101	23,717,122
Customers and accrued income (Note 6)	6,637	0
Debtors and deferred costs (Note 7)	494,893	418,542
Shareholders		
Current loans	724,605	3,437,473
Debtors and deferred costs (Note 7)	5,285,910	157
	31,026,473	27,680,070
DEBTS TO RELATED PARTIES:		
Related parties		
Non current loans (b)	73,301,275	74,220,596
Current loans	250,000	971,066
Suppliers (Note 10)	2,242	6,177
Creditors and accrued costs (Note 10)	7,752,343	2,152,651
Shareholders		
Creditors and accrued costs (Note 10)	-67,824	1,319
	81,238,036	77,351,809
Net Total	**-50,211,564**	**-49,671,739**

(a) Shareholder loans made to Efacec Contracting Central Europe.
(b) This caption includes non-current loans obtained from the subsidiaries Efacec Energia and Efacec Engenharia.

17.3 DETAIL BY ENTITY OF THE BALANCES WITH RELATED PARTIES

Detail by entity of the balances with related parties breaks down as follows:

Debts of Related Parties:	31.12.2016	31.12.2015
CUSTOMERS AND ACCRUED INCOME (NOTE 6)		
Efacec Central Europe Limited SRL	6,637	0
Total Customers and Accrued Income (Note 6)	**6,637**	**0**
DEBTORS AND DEFERRED COSTS (NOTE 7)		
Efacec Engenharia e Sistemas, S.A.	-8,592	0
Efacec Energia, S.A.	-256,074	4,219
Efacec Marketing Internacional, S.A.	0	73,566
Efacec Electric Mobility, S.A.	0	62,776
Efacec Serviços Corporativos, S.A.	0	17,472
Efacec Angola, Lda.	264,665	0
Efacec Moçambique, Lda.	60,603	107,276
Efacec Central Europe Limited SRL	10	32,508
Efacec Contracting Central Europe GmbH	406,102	0
Efacec Equipos Electricos, SL	27,098	120,726
Grupo MGI Capital and ascendants	5,285,928	157
Other	1,061	0
Total debtors and deferred costs (Note 7)	**5,780,802**	**418,699**

Balance with Group MGI results mainly from a transfer of the account receivable of a customer, in accordance with the shareholders' agreement signed on 23 October 2015.

Debts to Related Parties:	31.12.2016	31.12.2015
SUPLLIERS (NOTE 10)		
Efacec Serviços Corporativos, S.A.	2,242	6,177
Total Suppliers (Note 10)	**2,242**	**6,177**
CREDITORS AND ACCRUED COSTS (NOTE 10)		
Efacec Marketing Internacional, S.A.	-109,492	0
Efacec Engenharia e Sistemas, S.A.	461,624	1,509,485
Efacec Electric Mobility, S.A.	-298,973	0
Efacec Serviços Corporativos, S.A.	-188,066	367
Efacec Energia, S.A.	7,888,047	508,894
Efacec Moçambique, Lda.	0	27,893
Sucursal Bulgaria	0	104,916
Grupo MGI Capital and ascendants	-67,824	1,319
Other	-798	1,096
Total Creditors and accrued costs (Note 10)	**7,684,519**	**2,153,970**

The outstanding balance with Efacec Energia results essentially from a credit assignment occurred in 2016, to be settled in 2017.

Detail by entity of the balances with related parties breaks down as follows:

Loans	31.12.2016		31.12.2015	
	Assets	Liabilities	Assets	Liabilities
NON CURRENT				
Efacec Marketing Internacional, S.A.	4,968,762			
Efacec Engenharia e Sistemas, S.A.		70,134,166		74,220,596
Efacec Serviços Corporativos, S.A.	2,440,372			
Efacec Energia, S.A.		3,167,109		
Efacec Angola, Lda.	12,709,189			
Efacec Contract. Central Europe GmbH	1,028,230			
	21,146,552	73,301,275	0	74,220,596
CURRENT				
Efacec Marketing Internacional, S.A.			4,531,557	
Efacec Electric Mobility, S.A.	1,313,890		4,868,890	
Efacec Serviços Corporativos, S.A.				67,706
Efacec Energia, S.A.	-218		11,044,890	3,360
Efacec Angola, Lda.			2,821,786	
Efacec Praha s.r.o.		250,000		
Efacec Central Europe Limited SRL	842,500			900,000
Efacec Contract. Central Europe GmbH	650,000			
Efacec Equipos Electricos, SL	450,000		450,000	
EfaServicing, ACE	4,929			
Grupo MGI Capital and ascendants	724,605		3,437,473	
	3,985,706	250,000	27,154,595	971,066
Total	**25,132,258**	**73,551,275**	**27,154,595**	**75,191,662**
Net Total		**-48,419,017**		**-48,037,067**

The loans are remunerated under market conditions, with Euribor as an index.

17.4 REMUNERATION OF THE BOARD OF DIRECTORS

During the financial year 2016, the remuneration of the Board of Directors of Efacec Power Solutions, all of fixed nature, amounted to 1,508,600 euros (219,323 euros in 2015, not comparable because it was an incomplete period).

18. FEES PAID TO AUDITORS

	2016	2015
Statutory Audit	8,000	37,000
Tax consultancy services	24,688	0
Other services	281,050	0
	313,738	37,000

19. CONTINGENCIES

We indicate below the values of contingent assets and liabilities arising from contractual disputes in which the EPS Group is involved.

1. CPTM contingency

The contract for the refurbishment of the signalling of several lines in the railway system of the State of São Paulo in Brazil, executed between the Brazilian company CPTM and the consortium constituted by and between Union Switch & Signal International Co. and Efacec Engenharia e Sistemas, S.A., was terminated, with justified reasons, by the Consortium, on November 24, 2014. Following this termination, the Consortium applied for compensation amounting to approximately 152 million BRL, plus 12,5 million USD, plus 510 thousand euros. The parties established negotiations in an attempt to reach an amicable settlement, which were unsuccessful, ending in November 2016, when CPTM/STM applied for compensation in the amount of approximately 585 million BRL (approximately 170 million euros). Considering the probability of success of each of the claims presented, no provision was made. The risk analysis results in contingent assets of 57 million euros and contingent liabilities of 60 million euros, which are considered to have a "Possible" probability of success. There are still contingent liabilities of 101 million euros with probability of success "Remote" and 9 million euros not yet categorized due to insufficient information.

Pursuant to the contract, if the parties do not reach an agreement, the dispute will be settled by international arbitration. Arbitration proceedings have not yet begun.

Pursuant to the Share Purchase Agreement signed between Winterfell 2 and MGI Capital, EPS Group has a right of recourse against MGI Capital, in connection with any potential liabilities that it may have to assume under this contractual dispute.

2. Vadeni Contingency

With regard to a contract for construction of a water treatment plant in Vadeni, Romania, the client terminated the contract in December 2016 due to delays in the construction work, and claimed for a compensation in the amount of 936 thousand euros plus penalties of 665 thousand euros. Simultaneously, the client executed the bank guarantees that had been contractually provided, in the amount of 553 thousand euros. A 1,2 million euros provision was made in Efacec Engenharia e Sistemas, S.A. accounts, which already includes the value of the executed bank guarantees.

The contractual dispute is focused on the engineering project to be implemented, as since the beginning of the project there was no agreement between the parties on that respect, which resulted in the delay that led to the termination of the contract. Efacec should challenge in court the termination of the contract, alleging that the delay was due to the client's unjustified refusal to approve the project presented by Efacec.

3. Bouhagi Contingency

With regard to a contract for construction of water treatment plant in Bouhagi, Algeria, the client terminated the contract on January 8, 2017 due to delays in the construction work. Hydrotreatment, a member of the consortium, and the entity which should perform the civil works, is the responsible for the delay. The work carried out by Efacec has so far been carried out in a timely manner. For now, no claim for compensation has been made by ONA, having instead, invited the parties to carry out a valuation of costs and work carried out up to the date of termination of the contract.

The main contingency arises from the fact that ONA holds bank guarantees provided by Efacec in the amount of approximately 1 million euros, which it may execute by virtue of the joint liability of the consortium, in which case Efacec would have a right of recourse against Hydrotreatment.

4. Catroel Contingency

Efacec executed a civil works subcontract agreement with Catroel. In May 2012, the subcontractor abandoned the work, but no formal termination of the contract was made. Catroel brought an action against Efacec Algerie initially claiming for the payment of invoices, additional work and damages totalling approximately 42 million dinars, but Efacec was ordered to pay around 75 million dinars, including interest. Efacec has appealed and an expert opinion was delivered, which was favourable to us, however on February 7, 2012 it was annulled and the first judgement was confirmed. We were notified of the judgement on March 6, 2017 and we have a period of 20 days to make the payment and two months to appeal to the Supreme Court. There is a provision associated with this process, so there will be no negative impacts on the income statement.

5. Tovisi Contingency

In Mozambique there is a proceeding brought by Tovisi Moçambique, a subcontractor of Efacec Mozambique in an engineering project in Maputo. Disagreements regarding the work management led to the withdrawal of that company, which filed a legal proceeding for damages amounting to 1 million euros. The legal preceding is pending a court ruling, and Efacec Mozambique believes in a favourable decision outcome.

6. GTC Contingency

In 2011, Efacec USA sold a 500MVA transformer to the company Georgia Transmission Corporation (GTC). In 2013, Efacec underwent a repair in the same transformer under the agreed guarantee. In April 2016, GTC claimed from Efacec USA for a compensation for alleged damages resulting from the same malfunction, which the customer estimated at 170 thousand euros. Efacec USA opposed to the claim on grounds that the costs were unjustified and were not properly demonstrated, and an arbitration proceeding was put in place under the terms of the agreement. We are currently in the process of mediation before challenging the arbitration process.

7. Efacec India tax contingency

A divergence in the Tax and Social Security Contributions calculated on the expatriates remuneration was identified in the subsidiary in India. Efacec decided in September 2016 to choose for voluntary regularization with the Local Authorities benefiting from a Special Regime for Tax Regularization, through a payment plan to be carried out until September 2017. The total estimated impact is 300 to 370 thousand euros, for which a provision was made.

8. Efacec Algeria Tax Contingency

An issue identified in the Algerian subsidiary during a tax inspection regarding the years 2008 to 2011, resulted in several tax adjustments, for non-acceptance of expenses and divergences in the calculation of taxable income. The overall risk is estimated at 880 thousand euros. In 2014, Efacec decided to dispute all the adjustments, but the response of the Algerian Tax Authority rejected the dispute in December 2016. Currently, the procedure to be adopted is under analysis: request for reduction/dispensation of penalties; hierarchical appeal or judicial challenge. The objective is to limit total impact to a maximum of 50% of the value under dispute.

20. GUARANTEES

20.1 PROVIDED GUARANTEES

In the syndicated loan taken out jointly by the subsidiaries Efacec Energia and Efacec Engenharia e Sistemas, Efacec Power Solutions made the following guarantees:

- Endorsement of promissory notes subscribed by Efacec Energia and by Efacec Engenharia e Sistemas;

- Financial pledge of the shares of Efacec Energia and Efacec Engenharia e Sistemas.

In addition to the guarantees, the same contract contains clauses that define compliance with a Debt Ratio, defined as Net Debt/EBITDA, whose maximum value should be 2,75. This contract ratio is observable in the consolidated accounts of Efacec Power Solutions, every six months. At 31 December 2016 the value of this ratio was 2,0.

20.2 OPERATING LEASE COMMITMENTS

The company leases various vehicles through non-revocable lease agreements. The lease agreements have various lease periods, readjustment clauses and renewal rights. On the date of the financial statement, the Group held Long Term Rentals ("Renting") contracts considered as an operating lease, the value of the outstanding lease amounted to 489 thousand euros, with the following maturities:

	31.12.2016	31.12.2015
Up to 1 year	139,956	0
Between 1 and 5 years	348,900	0
Other services	488,856	0

21. SUBSEQUENT EVENTS

After the date referred to in the financial statements, there were no facts worthy of note.

Leça do Balio, 27 March 2017

The Accountant
Sofia Marlene Ferreira Pereira

The Board of Directors
Mário Filipe Moreira Leite da Silva (Chairman)
Francisco Dias Pereira de Sousa Talino (Director)
Ângelo Manuel da Cruz Ramalho (Director)
Francisco José Meira Silva Nunes (Director)
Luís Henrique Marcelino Alves Delgado (Director)
Fernando José Gomes da Mota Lourenço (Director)
António José Gonzalez Almela (Director)
João Paulo dos Santos Pinto (Director)
Rui Alexandre Pires Diniz (Director)
Miguel Maria Pereira Vilardebó Loureiro (Director)
Manuel António Carvalho Gonçalves (Director)
Vanessa Ferreira Loureiro (Director)

LEGAL CERTIFICATION OF ACCOUNTS

pwc

Statutory Audit Report

(Free translation from the original in Portuguese)

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Efacec Power Solutions, S.G.P.S., S.A. (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 (which shows total assets of Euro 638,216,308 and total shareholders' equity of Euro 309,147,595 including non-controlling interests of Euro 117,968 and a net profit of Euro 4,309,736), the consolidated statement of income by nature, the consolidated statement of comprehensive income] the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly in all material respects, the consolidated financial position of Efacec Power Solutions, S.G.P.S., S.A. as at 31 December 2016, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section below. In accordance with the law we are independent of the entities that are included in the Group and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis

As referred to in the note 29.1 of the notes to the consolidated financial statements, there is an ongoing process arising from the termination of a contract in Brazil for reasons attributable to a customer, regarding which it is not possible, at the closing date of the financial statements, to estimate the outcome (maximum liabilities amount to 170 million euros and contingent assets to 57 million euros). Even though any claims arisen from this contractual dispute are fully indemnifiable by the former major shareholder as contemplated in the shares purchase agreement, as of this date there is some uncertainty of the potential effects that the timing between the inflow and outflow may have on the Group financial statements, which is also dependent on the financial capacity of the former shareholder to solve these contingent amounts.

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Inscrita na lista das Sociedades de Revisores Oficiais de Contas sob o nº 183 e na CMVM sob o nº 20161485

Our opinion is not modified in respect of this matter.

Responsibilities of management and supervisory board for the consolidated financial statements

Management is responsible for:

a) the preparation of the consolidated financial statements, which present fairly the financial position, the financial performance and the cash flows of the Group in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria;

e) the assessment of the Group's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Group's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure of the Group's financial information.

Auditor's responsibilities for the audit of the consolidated financial statements

Our responsibility is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion;

g) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit;

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the consolidated financial statements.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited consolidated financial statements and, taking into account the knowledge and assessment about the Group, no material misstatements were identified.

11 April 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Miguel Dantas Maio Marques, R.O.C.

SUPERVISORY BOARD REPORT AND OPINION

Dear Shareholders,

In accordance with the law and the articles of association, the Supervisory Board of Efacec Power Solutions, SFPS, S.A., with its registered office at Lugar da Arroteia, 4465-587 Matosinhos, hereby presents this report about its supervisory action and issues its opinion on the annual report and consolidated accounts presented by the Directors regarding the financial year ending 31 December 2016.

1. In accordance with the law and the articles of association, we carried out the following actions:

- supervision of the actions of the Directors by way of meetings with those in charge of the accounting and financial, risk and legal areas, consulting minutes and accounts information, and information and clarifications obtained;
- checks on compliance with the law and fulfilment of the company's articles of association;
- checks, with the breadth and depth deemed suitable in the circumstances, on the group's business and activity, documents, good order of bookkeeping and record keeping, as well as the existence of the main assets;
- assessment whether the accounting policies and valuation/measuring criteria adopted by the group are in accordance with the generally accepted accounting principles and lead to a correct assessment of the assets and results;
- identification of the internal control system implemented by the Directors;
- supervision of the process of preparing and disclosing consolidated financial information, specifically regarding the accounts consolidation procedures and operations;
- checks on the accuracy of the Consolidated balance sheet, the Consolidated income statement by nature, the Consolidated statement of changes in equity, the Consolidated cash flow statement, and the relevant Annex;
- consideration of the consolidated Annual Report issued by the Directors;
- consideration of the work carried out by the Statutory Auditor regarding the statutory audit and additional services;
- consideration of the legal certification of accounts issued on 11 April 2017 by the Statutory Auditor without reservations and with one emphasis of matter.

2. Of the work we carried out, we believe it is important to highlight the following:

- the start of the strategic restructuring project which has clear objectives regarding streamlining of businesses areas; improved commercial, technological and innovation competitiveness; a search to increase value, particularly in the energy (transformers) field, the first results of which began to be felt;

- the difficulties experienced due to the worsening situation in some markets, specifically Angola and Mozambique;
- the priority undertaken by the Board of Directors to increase the amount of orders, which fell significantly in the second half of the year;
- the achievement of a profit, supporting the strategic direction and efforts made by the current management team, with a stabilization in the financial situation at comfortable levels and in line with the objectives set.

3. Our supervisory action allows us to conclude that:

- the acts of the Directors of which we are aware maintain compliance with the law and the company's articles of association;
- we did not become aware of any situations that could jeopardize the suitability and effectiveness of the internal control system implemented by the Directors to control the risks to which the group is exposed;
- the accounting and accounts meet the legal requirements, the requirements of the articles of association and regulations applicable, reflect the activity performed and lead to an accurate assessment of the group's assets and results;
- the consolidated Annual Report is in line with the consolidated accounts presented and faithfully demonstrates developments in the activity and business of the company and other companies included in the scope of the consolidation during the financial year;
- the work carried out by the Statutory Auditor was suitable for the circumstances and the additional services did not compromise its independence.

4. We can hereby declare:

- our agreement with the legal certification of accounts issued by the Statutory Auditor, particularly regarding the content of the emphasis of matter;
- our agreement with the consolidated Annual Report and consolidated accounts for the 2016 financial year presented by the Board of Directors;
- that, to the best of our knowledge, the consolidated financial information disclosed was drawn up in compliance with the applicable accounting standards, giving a true and proper image of the consolidated assets and liabilities, the financial situation and the results of the company and other companies included in the scope of the consolidation and that the consolidated Annual Report faithfully demonstrates the evolution of their business, performance and financial position, containing a description of the main risks and uncertainties they face.

5. Accordingly, and taking into account the actions carried out, we are of the opinion that:

- the consolidated Annual Report and consolidated accounts for the 2016 financial year presented by the Board of Directors are approved.

Lugar da Arroteia, 12 April 2017.

The Supervisory Board
José Manuel Gonçalves de Morais Cabral (Chairman)
António Manuel de Castro Vieira Rodrigues (Member)
Sérgio Paulo Esteves de Poças Falcão (Member)

Statutory Audit Report

(Free translation from the original in Portuguese)

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Efacec Power Solutions, S.G.P.S., S.A. (the Entity), which comprise the statement of financial position as at 31 December 2016 (which shows total assets of Euro 406,786,530 and total shareholders' equity of Euro 323,721,760 including a net profit of Euro 706,758), the statement of income by nature, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly in all material respects, the financial position of Efacec Power Solutions, S.G.P.S., S.A. as at 31 December 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and other technical and ethical standards and recommendations issued by the Institute of Statutory Auditors. Our responsibilities under those standards are described in the "Auditor's responsibilities for the audit of the financial statements" section below. In accordance with the law we are independent of the Entity and we have fulfilled our other ethical responsibilities in accordance with the ethics code of the Institute of Statutory Auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis

As referred to in the note 19 of the notes to the financial statements, there is an ongoing process in a subsidiary arising from the termination of a contract in Brazil for reasons attributable to a customer, regarding which it is not possible, at the closing date of the financial statements, to estimate the outcome (maximum liabilities amount to 170 million euros and contingent assets to 57 million euros). Even though any claims arisen from this contractual dispute are fully indemnifiable by the former major shareholder as contemplated in the shares purchase agreement, as of this date there is some uncertainty of the potential effects that the timing between the inflow and outflow may have on the subsidiary financial statements, which is also dependent on the financial capacity of the former shareholder to solve these contingent amounts.

Our opinion is not modified in respect of this matter.

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Responsibilities of management and supervisory board for the financial statements

Management is responsible for:

a) the preparation of the financial statements, which present fairly the financial position, the financial performance and the cash flows of the Entity in accordance with International Financial Reporting Standards (IFRS), as adopted by the European Union;

b) the preparation of the Directors' Report in accordance with the applicable law and regulations;

c) the creation and maintenance of an appropriate system of internal control to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error;

d) the adoption of appropriate accounting policies and criteria;

e) the assessment of the Entity's ability to continue as a going concern, disclosing, as applicable, events or conditions that may cast significant doubt on the Entity's ability to continue its activities.

The supervisory board is responsible for overseeing the process of preparation and disclosure process of the Entity's financial information.

Auditor's responsibilities for the audit of the financial statements

Our responsibility is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

a) identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

b) obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control;

c) evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;

d) conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern;

e) evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

f) communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Our responsibility also includes verifying that the information included in the Directors' report is consistent with the financial statements.

Report on other legal and regulatory requirements

Director's report

In compliance with paragraph 3 e) of article No. 451 of the Portuguese Company Law, it is our understanding that the Director's report has been prepared in accordance with applicable requirements of the law and regulation, that the information included in the Directors' report is consistent with the audited financial statements and, taking into account the knowledge and assessment about the Entity, no material misstatements were identified.

11 April 2017

PricewaterhouseCoopers & Associados
- Sociedade de Revisores Oficiais de Contas, Lda.
represented by:

José Miguel Dantas Maio Marques, R.O.C.

SUPERVISORY BOARD REPORT AND OPINION

Dear Shareholders,

In accordance with the law and the articles of association, the Supervisory Board of Efacec Power Solutions, SFPS, S.A., with its registered office at Lugar da Arroteia, 4465-587 Matosinhos, hereby presents this report about its supervisory action and issues its opinion on the report, accounts and proposals presented by the Directors regarding the financial year ending 31 December 2016.

1. In accordance with the law and the articles of association, we carried out the following actions:

- supervision of the actions of the Directors by way of meetings with those in charge of the financial, internal audit and legal areas, consulting minutes and accounts information, and information and clarifications obtained;
- checks on compliance with the law and fulfilment of the company's articles of association;
- checks, with the breadth and depth deemed suitable in the circumstances, on the company's business and activity, documents, good order of bookkeeping and record keeping, as well as the existence of the main assets;
- assessment whether the accounting policies and valuation/measuring criteria adopted by the company are in accordance with the generally accepted accounting principles and lead to a correct assessment of the assets and results;
- identification of the internal control system implemented by the Directors;
- supervision of the process of preparing and disclosing financial information;
- checks on the accuracy of the Balance sheet, the Income statement by nature, the Statement of changes in equity, the Cash flow statement, and the relevant Annex;
- consideration of the Annual Report issued by the Directors and the proposed appropriation of profit contained in it;
- consideration of the work carried out by the Statutory Auditor regarding the statutory audit and additional services;
- consideration of the legal certification of accounts issued on 11 April 2017 by the Statutory Auditor without reservations and with one emphasis of matter.

2. Of the work we carried out, we believe it is important to highlight the following:

- the start of the strategic restructuring project which has clear objectives regarding streamlining of businesses areas; improved commercial, technological and innovation competitiveness; a search to increase value, particularly in the energy (transformers) field, the first results of which began to be felt;

- the difficulties experienced due to the worsening situation in some markets, specifically Angola and Mozambique;
- the priority undertaken by the Board of Directors to increase the amount of orders, which fell significantly in the second half of the year;
- the achievement of a profit, supporting the strategic direction and efforts made by the current management team, with a stabilization in the financial situation at comfortable levels and in line with the objectives set.

3. Our supervisory action allows us to conclude that:

- the acts of the Directors of which we are aware maintain compliance with the law and the company's articles of association;
- we did not become aware of any situations that could jeopardize the suitability and effectiveness of the internal control system implemented by the Directors to control the risks to which the company is exposed;
- the accounting and accounts meet the legal requirements, the requirements of the articles of association and regulations applicable, reflect the activity performed and lead to an accurate assessment of the company's assets and results;
- the Annual Report is in line with the accounts presented and faithfully demonstrates developments in the activity and business during the financial year;
- the audit of the financial statements carried out by the Statutory Auditor was suitable for the circumstances, and the additional services did not compromise its independence;
- the proposed appropriation of profit is suitable and duly justified.

4. We can hereby declare:

- our agreement with the legal certification of accounts issued by the Statutory Auditor, particularly regarding the content of the emphasis of matter;
- our agreement with the Annual Report and accounts for the 2016 financial year presented by the Board of Directors;
- that, to the best of our knowledge, the financial information disclosed was drawn up in compliance with the applicable accounting standards, giving a true and proper image of the assets and liabilities, the financial situation and the results of the company and that the Annual Report faithfully demonstrates the evolution of its business, performance and financial position, containing a description of the main risks and uncertainties it faces.

5. Accordingly, and taking into account the actions carried out, we are of the opinion that:

- the Annual Report and accounts for the 2016 financial year presented by the Board of Directors are approved;
- the proposed appropriation of profit contained in the Annual Report is approved.

Lugar da Arroteia, 12 April 2017.

The Supervisory Board
José Manuel Gonçalves de Morais Cabral (Chairman)
António Manuel de Castro Vieira Rodrigues (Member)
Sérgio Paulo Esteves de Poças Falcão (Member)

PERFORMANCE INDICATORS

ENVIRONMENTAL INDICATORS

Item	Indicator	Units	Scope	2014	2015	2016
Materials	Magnetic sheet consumed	Ton	Arroteia	6702	7723	6414
	Magnetic sheet recycled	%	Arroteia	20	20	20
	Copper consumed	Ton	Arroteia	3039	2743	2347
	Copper recycled	%	Arroteia	0	0	0
	Aluminium consumed	Ton	Arroteia	n.d.	n.d.	639
	Aluminium recycled	%	Arroteia	n.d.	n.d.	0
	Oil consumed	Ton	Arroteia	4966	5404	5856
	Oil recycled	%	Arroteia	0	0	0
	Plastic packaging consumed	Kg	Arroteia	354	400	500
			Maia	603	916	759
	Paper / cardboard packaging consumed	Kg	Arroteia	1593	1025	1000
			Maia	520	905	708
	Wooden packaging consumed	Kg	Arroteia	156552	91495	72050
			Maia	0	850	629
	Packaging consumed – others	Kg	Arroteia	37	0	0
			Maia	243	104	0
Energy	Thermal energy consumed (natural gas) (1)	GJ	Arroteia	23886	27093	27259
			Maia	2793	2317	3974
			National	26679	29410	31233
	Thermal energy consumed (petrol) (1)	GJ	National	320	315	248
	Thermal energy consumed (diesel) (1)	GJ	National	31641	36302	26865
	Electricity consumed (2)	GJ	Arroteia	58331	58937	62763
			Maia	17020	23430	23846
			National	75351	82367	86609
	Hydroelectric power indirectly consumed (3)	GJ	National	22884	11531	18775
	Wind energy indirectly consumed (3)	GJ	National	8286	13426	18083
	Natural gas indirectly consumed (3)	GJ	National	7576	8484	9007
	Coal indirectly consumed (3)	GJ	National	22884	29652	21198
	Other non-renewable energy indirectly consumed (3)	GJ	National	12389	1367	12892
	Other renewable energy indirectly consumed (3)	GJ	National	4893	5601	6662
	Renewable production	GJ	National	1226	1282	1116
Water	Water consumption – public grid	m^3	Arroteia	16069	16658	21812
			Maia	13824	13193	18864
			National	29893	29851	40676
	Water consumed – water holes	m^3	Arroteia	11001	13922	15361
			Maia	9112	7694	5315
			National	20113	21616	20677
	Water sources affected	m^3	National	0	0	0
	Re-used / recycled water	m^3	National	0	0	0
Effluents	Water discharge	m^2	Arroteia	2107	1261	1759
	Spillage		Arroteia	10	5	6
Biodiversity	Protected area (or adjacent)		National	0	0	0

(1) Values calculated using Lower Calorific Values (LCV), indicated in the National Inventory of Greenhouse Gases 2013-2020.

(2) Conversion factor: 1kWh=0.0036GJ.

(3) Values calculated using the data published by EDP Comercial which reflect the source of the electricity consumed and the emission of CO_2 in 2016.

Item	Indicator	Units	Scope	2014	2015	2016
Emissions	Direct – use of natural gas (1)	TonCO2e	Arroteia	1352	1533	1543
			Maia	158	131	225
			National	1510	1665	1768
	Direct – use of petrol (1)		National	24	23	18
	Direct – use of diesel (1)		National	2345	2690	1980
	Indirect - use of electricity (3)		Arroteia	5481	7181	5389
			Maia	1599	2855	2047
			National	7080	10036	7436
	CO (4)	Kg	Arroteia	4328	4328	4328
			Maia	358	358	358
	VOCs (4)		Arroteia	10699	7895	8515
			Maia	390	390	390
	NOx (4)		Arroteia	2426	2426	2426
			Maia	396	396	396
	SO2 (4)		Arroteia	808	808	808
			Maia	17	17	17
	Particles (4)		Arroteia	8098	8152	6739
			Maia	61	61	61
	Consumption of ozone-destroying subst.		Arroteia	0	0	0
Waste	Hazardous waste disposed of	Ton	Arroteia	84	26	13.6
			Maia	0	0	5.3
			Lagoas	4	2	1
			National	88	29	19.9
	Non-hazardous waste disposed of		Arroteia	184	15	32.8
			Maia	0	0	12.8
			Lagoas	0	0	0
			National	184	15	45.6
	Waste disposed of		Arroteia	268	41	46.4
			Maia	0	0	18.1
			Lagoas	4	2	1
			National	272	44	65.5
	Hazardous waste recovered		Arroteia	313	321	315.4
			Maia	5	11	13.6
			Lagoas	1	1	1
			National	319	333	330
	Non-hazardous waste recovered		Arroteia	1994	2154	2329.6
			Maia	103	127	182.08
			Lagoas	113	209	181
			National	2210	2490	2692.68
	Waste recovered		Arroteia	2307	2475	2645
			Maia	108	138	195.68
			Lagoas	114	210	182
			National	2529	2823	3022.68

(4) The availability of data depends on the monitoring frequency arising from the values obtained and the formal opinion of the CCDR. Until the next measurements the values from previous years are maintained.

SOCIAL INDICATORS

Item	Indicator	Units	Scope	2014	2015	2016
Employment (1)	Permanent employees	#Employees	National	1890	1953	1803
	Employees with fixed-term contracts			218	151	171
	Executive directors			4	4	6
	Full time employees			2111	2107	1979
	Part-time employees			1	1	1
	Employees		Arroteia	1110	1115	1071
			Maia	647	638	600
			Lagoas	335	334	289
			Others	20	21	20
			National	2112	2108	1980
	International employees (local contr.)		Subsidiaries	373	372	350
	Employees		Global	2485	2496	2330
Turnover (1)	Leavers <30 years old		National	42	16	13
	Leavers 30-39 years old			56	38	45
	Leavers 40-49 years old			12	13	9
	Leavers >50 years old			41	16	146
	Male leavers			123	66	179
	Female leavers			29	17	34
			Total	152	83	213
	Turnover rate	%	National	3.7	3.9	4.3
Absenteeism	Absenteeism rate		National	3.5	3.9	4.0
Labour Relations	Employees belonging to trade unions (1)	%	National	13	14	15
	Deadline to notify changes	Days		15	15	15
Safety	Frequency index (2)	-	Efacec	15	16	12
	Severity rate (3)			550	652	333
	Incidence rate (4)			27	32	23
	Duration rate (5)			17	20	11
	Frequency index (2)		Efacec Engenharia e Sistemas	2	3	4
	Severity rate (3)			24	180	144
	Incidence rate (4)			0	5	8
	Duration rate (5)			3	29	12
	Frequency index (2)		Efacec Energia	24	26	17
	Severity rate (3)			934	1010	465
	Incidence rate (4)			44	51	34
	Duration rate (5)			3	29	11
	Frequency index (2)		Efacec Electric Mobility	0	6	7
	Severity rate (3)			0	200	315
	Incidence rate (4)			0	12	13
	Duration rate (5)			0	16	12
	Occupational diseases (6)	#Employees	National	3	6	6
	Deaths			0	0	0
Training	Training sessions	#Hours	National	39448	35035	23054
Human Rights	Cases of discrimination	#	Global	0	0	0
	Operations with freedom of assoc. risk			0	0	0
	Operations with child labour risk			0	0	0
	Operations with forced labour risk			0	0	0

(1) The number of Employees refers to the situation on 31 December.

(2) Frequency Rate = no. of accidents with sick leave / (no. of Man hours worked) x 10^6.

(3) Severity Rate = no. of working days lost /no. of Man hours worked) x 10^6.

(4) Incidence Rate = no. of accidents with sick leave / (average no. of workers) x 10^3.

(5) Duration Rate = no. of working days lost / no. of Accidents.

(6) This indicator shows the number of cases actually confirmed by the CNPRP (National Centre for Protection against Professional Risks) in the respective year.

2016 Annual Report and Accounts

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Efacec Power Solutions, S.G.P.S., S.A.

Registered Office:
Parque empresarial da Arroteia (Poente)
Apartado 1018 – 4466-952 S. Mamede de Infesta

Share Capital:
285.874.030,00 Euros

Company fiscal number: 513 180 966
Registered at the Porto C.R.O.

Grafic Design:
Plot Content Agency

Printing and finishing:
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